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## Taiwan: Major U.S. Arms Sales Since 1990

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# Taiwan: Major U.S. Arms Sales Since 1990

## Summary

This report, updated as warranted, discusses U.S. security assistance to Taiwan, or Republic of China (ROC), including policy issues for Congress and legislation. The Taiwan Relations Act (TRA), P.L. 96-8, has governed U.S. arms sales to Taiwan since 1979, when the United States recognized the People's Republic of China (PRC) instead of the ROC. Two other relevant parts of the "one China" policy are the August 17, 1982, U.S.-PRC Joint Communiqué and the "Six Assurances" made to Taiwan. U.S. arms sales to Taiwan have been significant. In addition, the United States has expanded military ties with Taiwan after the PRC's missile firings in 1995-1996. However, there is no defense treaty or alliance with Taiwan.

At the U.S.-Taiwan arms sales talks on April 24, 2001, President George W. Bush approved for possible sale diesel-electric submarines, P-3 anti-submarine warfare (ASW) aircraft (linked to the submarine sale), four decommissioned U.S. Kidd-class destroyers, and other items. Bush also deferred decisions on Aegis-equipped destroyers and other items, while denying other requests. Since then, attention has turned to Taiwan, where the military, civilian officials, and legislators from competing political parties have debated contentious issues about how much to spend on defense and which U.S. weapons systems to acquire, despite the increasing threat (including a missile buildup) from the People's Liberation Army (PLA), as described in the Pentagon's reports to Congress on PRC military power. In February 2003, the Administration pointed Taiwan to three priorities for defense: command and control, missile defense, and ASW. Some in the United States increasingly have questioned Taiwan's seriousness about its self-defense, level of defense spending, and protection of secrets. The Pentagon also has shifted its focus from Taiwan's Special Budget to its regular defense budget and raising readiness for self-defense. Blocked by the opposition-controlled legislature, the Special Budget for submarines, P-3C ASW aircraft, and PAC-3 missile defense systems had been reduced from about US\$18 billion in 2004 to US\$9 billion (for submarines only) in December 2005. Then, in March 2006, Taiwan's defense minister decided to request a Supplemental Budget for the 2006 defense budget in part for submarine procurement, P-3Cs, and PAC-2 upgrades (not new PAC-3 missiles). Now, U.S. policymakers and firms are waiting to see how Taiwan's legislators might resolve the pending U.S. arms sales and increase spending in the 2007 defense budget during their fall session.

Several policy issues are of concern to Congress for legislation, oversight, or other action. One issue concerns the effectiveness of the Administration in applying leverage to improve Taiwan's self-defense as well as to maintain peace and stability. Another issue is the role of Congress in determining security assistance, defense commitments, or policy reviews. A third issue concerns whether trends in the Taiwan Strait are stabilizing or destabilizing and how the Administration's management of policy has affected these trends. The fundamental issue is whether the United States would go to war with China and how conflict might be prevented. On June 29, the House passed H.R. 5672 with Sec. 801 to relax restrictions on senior military visits to and other contacts with Taiwan, but the Senate's version does not have the language. Also, in conference, the House receded from its sections boosting ties to Taiwan in the FY2007 National Defense Authorization Act (P.L. 109-364).

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# Taiwan: Major U.S. Arms Sales Since 1990

## **U.S. Policy**

This report discusses U.S. security assistance for Taiwan, formally called the Republic of China (ROC), including policy issues for Congress. It also lists sales of major defense articles and services to Taiwan, as approved by the Administration, proposed in Letters of Offer and Acceptance, and notified to Congress since 1990. The discussion uses a variety of unclassified consultations in the United States and Taiwan, as well as open source citations.

## **Policy Statements**

The Taiwan Relations Act (TRA), P.L. 96-8, has governed U.S. arms sales to Taiwan since 1979, when the United States recognized the People's Republic of China (PRC) instead of the ROC. The TRA specifies that it is U.S. policy, among the stipulations: to consider any non-peaceful means to determine Taiwan's future "a threat" to the peace and security of the Western Pacific and of "grave concern" to the United States; "to provide Taiwan with arms of a defensive character;" and "to maintain the capacity of the United States to resist any resort to force or other forms of coercion" jeopardizing the security, or social or economic system of Taiwan's people. Section 3(a) states that "the United States will make available to Taiwan such defense articles and defense services in such quantity as may be necessary to enable Taiwan to maintain a sufficient self-defense capability." The TRA also specifies a congressional role in decision-making on security assistance for Taiwan. Section 3(b) stipulates that both the President and the Congress shall determine the nature and quantity of such defense articles and services based solely upon their judgment of the needs of Taiwan. Section 3(b) also says that "such determination of Taiwan's defense needs shall include review by United States military authorities in connection with recommendations to the President and the Congress." The TRA set up the American Institute in Taiwan (AIT), a nonprofit corporation, to handle the relationship with Taiwan. AIT implements policy as directed by the Departments of Defense and State, and the National Security Council (NSC) of the White House.

There are two other elements of the "one China" policy relevant to the issue of arms sales to Taiwan. In 1982, President Reagan issued the August 17 Joint Communique on reducing arms sales to Taiwan, but he also stated that those sales will continue in accordance with the TRA and with the full expectation that the PRC's approach to the resolution of the Taiwan issue will be peaceful. At the same time, Reagan issued "Six Assurances" to Taipei, including assurances that Washington would not agree to set a date for ending arms sales to Taiwan nor to consult with Beijing on arms sales to Taiwan. The "Six Assurances" also included the assurance that the United States would not revise the TRA. (For more on U.S.

policy, see CRS Report RL30341, *China/Taiwan: Evolution of the “One China” Policy — Key Statements From Washington, Beijing, and Taipei*, by Shirley Kan.)

## Broad Indicators of Arms Transfers

As for U.S. arms transfers to Taiwan, they have been significant despite the absence of diplomatic relations or a treaty alliance. The value of *deliveries* of U.S. defense articles and services to Taiwan totaled \$7.7 billion in the 1997-2000 period and \$4 billion in 2001-2004. Among worldwide customers, Taiwan ranked 2<sup>nd</sup> (behind Saudi Arabia) in 1997-2000 and 4<sup>th</sup> (behind Egypt, Saudi Arabia, and Japan) in 2001-2004. In 2004 alone, Taiwan ranked 5<sup>th</sup> among worldwide recipients, receiving \$1.1 billion in U.S. defense articles and services.<sup>1</sup> Values for U.S. agreements with and deliveries to Taiwan are summarized below.

	1997-2000 period	2001-2004 period	2004
U.S. Agreements	\$1,900 million	\$1,200 million	\$590 million
U.S. Deliveries	\$7,700 million	\$4,000 million	\$1,100 million

From *worldwide* sources, including the United States, Taiwan received \$13.9 billion in arms *deliveries* in the eight-year period from 1998 to 2005. Taiwan ranked 3<sup>rd</sup> (behind Saudi Arabia and China) among leading recipients that are developing countries. Of that total, Taiwan received \$9.8 billion in arms in 1998-2001 and \$4.1 billion in 2002-2005. In 2005 alone, Taiwan ranked 6<sup>th</sup> and received \$1.3 billion in arms deliveries, while the PRC ranked 5<sup>th</sup> and received arms valued at \$1.4 billion. As an indication of future arms acquisitions, Taiwan’s arms *agreements* in 2002-2005 totaled \$4.9 billion. The value of Taiwan’s arms agreements in 2005 alone did not place it among the top ten recipients that are developing countries.<sup>2</sup>

## Military Relationship

**“Software Initiative”.** In addition to transfers of hardware, beginning after the crisis in the Taiwan Strait in 1995-1996 during which President Clinton deployed two aircraft carrier battle groups near Taiwan in March 1996, the Pentagon quietly expanded the sensitive military relationship with Taiwan to levels unprecedented since 1979.<sup>3</sup> The broader exchanges have increased attention to “software,” including discussions over strategy, training, logistics, command and control, etc.

<sup>1</sup> CRS Report RL33217, *U.S. Arms Sales: Agreements with and Deliveries to Major Clients, 1997-2004*, December 29, 2005, by Richard Grimmett; compiled from U.S. official, unclassified data as reported by the Defense Security Cooperation Agency (DSCA).

<sup>2</sup> CRS Report RL33696, *Conventional Arms Transfers to Developing Nations, 1998-2005*, October 23, 2006, by Richard Grimmett; compiled from unclassified data from DSCA.

<sup>3</sup> Mann, Jim, “U.S. Has Secretly Expanded Military Ties with Taiwan,” *LA Times*, July 24, 1999; Kurt M. Campbell (former Deputy Assistant Secretary of Defense for Asian and Pacific Affairs) and Derek J. Mitchell, “Crisis in the Taiwan Strait?,” *Foreign Affairs*, July/August 2001.

Also, Taiwan's F-16 fighter pilots have trained at Luke Air Force Base, AZ, since 1997. However, in 2004, Taiwan's Minister of Defense Lee Jye surprisingly began to consider withdrawing the pilots and fighters.<sup>4</sup> In response, the Defense Department stressed the value of continuing the training program to develop "mission ready and experienced pilots" with improved tactical proficiency shown by graduated pilots who have "performed brilliantly," as explicitly notified to Congress.<sup>5</sup>

In July 2001, after U.S. and Taiwan media reported on the "Monterey Talks," a U.S.-Taiwan national security meeting that was originally held in Monterey, CA, the Pentagon revealed it was the 7<sup>th</sup> meeting (since 1997) held with Taiwan's national security authorities "to discuss issues of interaction and means by which to provide for the defense of Taiwan."<sup>6</sup> Another round of such strategic talks took place in July 2002.<sup>7</sup> The 11<sup>th</sup> round of the talks took place in late September 2005, after the Bush Administration postponed the meeting by a couple of weeks to accommodate PRC ruler Hu Jintao's scheduled visit to Washington on September 7 (which was then postponed because of President Bush's response to Hurricane Katrina).<sup>8</sup>

These exchanges were prompted by increasing U.S. concerns about Taiwan's self-defense capabilities. At a conference on Taiwan's defense in March 2002, Deputy Secretary of Defense Paul Wolfowitz said that the United States wanted to help Taiwan's military to strengthen civilian control, enhance jointness, and rationalize arms acquisitions.<sup>9</sup> In April 2004, Assistant Secretary of Defense for International Security Affairs Peter Rodman told Congress that the Pentagon believed Taiwan's military needed to improve readiness, planning, and interoperability among its services.<sup>10</sup>

**Assessments.** The Pentagon has also conducted its own assessments of Taiwan's defense needs, with over a dozen studies from 1997 to early 2004.<sup>11</sup> Congress could inquire about these assessments and any other reports. In September 1999, to enhance cooperation, a Pentagon team was said to have visited Taiwan to

<sup>4</sup> *Jane's Defense Weekly*, October 9, 2004 and June 29, 2005; and author's consultations.

<sup>5</sup> DSCA, notification to Congress, October 25, 2005 (see list at end of this CRS Report).

<sup>6</sup> *China Times (Taiwan)*, July 18, 2001; *Washington Times*, July 18, 2001; Department of Defense News Briefing, July 19, 2001.

<sup>7</sup> *Central News Agency*, Taipei, July 17, 2002.

<sup>8</sup> Project for a New American Century, August 26, 2005; *Taipei Times*, September 15, 2005.

<sup>9</sup> Deputy Secretary of Defense Paul Wolfowitz, "Remarks to the U.S.-Taiwan Business Council," March 11, 2002.

<sup>10</sup> Testimony before the House International Relations Committee, hearing on "The Taiwan Relations Act: The Next 25 Years," April 21, 2004.

<sup>11</sup> Statement of Assistant Secretary of Defense for International Security Affairs Peter Rodman at a hearing on "The Taiwan Relations Act: The Next 25 Years" held by the House International Relations Committee on April 21, 2004.

assess its air defense capability.<sup>12</sup> The Pentagon reportedly completed its classified assessment in January 2000, finding a number of problems in the Taiwan military's ability to defend against aircraft, ballistic missiles, and cruise missiles, and those problems included international isolation, inadequate security, and sharp inter-service rivalries.<sup>13</sup> In September 2000, the Pentagon reportedly conducted a classified assessment of Taiwan's naval defense needs — as the Clinton Administration had promised in April 2000 while deferring a sale of Aegis-equipped destroyers. The report, "Taiwan Naval Modernization," was said to have found that Taiwan's navy needed the Aegis radar system, Kidd-class destroyers, submarines, an anti-submarine underwater sonar array, and P-3 anti-submarine aircraft.<sup>14</sup> In January 2001, a Pentagon team reportedly examined Taiwan's command and control, air force equipment, and air defense against a first strike.<sup>15</sup> In September 2001, a Defense Department team reportedly visited Taiwan to assess its army, as the Bush Administration promised in the April 2001 round of arms sales talks.<sup>16</sup> In August 2002, a U.S. military team studied Taiwan's Po Sheng command, control, communication, computers, intelligence, surveillance, and reconnaissance (C4ISR) program.<sup>17</sup> In November 2002, another U.S. team visited Taiwan to assess its marine corps and security at ports and harbors, and reported positive findings.<sup>18</sup> In November 2003, a U.S. defense team visited Taiwan to assess its anti-submarine warfare (ASW) capability and rated the overall capability as poor.<sup>19</sup>

**Normalized Relations.** The George W. Bush Administration has continued the Clinton Administration's initiative and expanded the closer military ties at different levels. In April 2001, President Bush announced he would drop the 20-year-old annual arms talks process used to discuss arms sales to Taiwan's military in favor of normal, routine considerations of Taiwan's requests on an as-needed basis — similar to interactions with other governments.<sup>20</sup>

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<sup>12</sup> "U.S. Military Team Arrives in Taiwan for Visit," *Lien-ho Pao [United Daily News]*, Sept. 19, 1999, in *FBIS*.

<sup>13</sup> Ricks, Thomas, "Taiwan Seen as Vulnerable to Attack," *Washington Post*, March 31, 2000.

<sup>14</sup> Tsao, Nadia, "Pentagon Report Says Taiwan Can Handle AEGIS," *Taipei Times*, September 27, 2000; Michael Gordon, "Secret U.S. Study Concludes Taiwan Needs New Arms," *New York Times*, April 1, 2001.

<sup>15</sup> *China Times* (Taiwan), January 14, 2001; *Taipei Times*, January 15, 2001.

<sup>16</sup> *Taipei Times* (Taiwan), September 10, 2001.

<sup>17</sup> *Taiwan Defense Review* (Taiwan), August 27, 2002.

<sup>18</sup> *Taipei Times*, November 21, 2002; January 1, 2003; *Tzu-Yu Shih-Pao [Liberty Times]* (Taipei), April 14, 2003; *Taipei Times*, August 22, 2003.

<sup>19</sup> *Jane's Defense Weekly*, December 3, 2003; *Taiwan Defense Review*, January 12, 2004; *Jane's Defense Weekly*, June 30, 2004.

<sup>20</sup> On the annual arms talks, see CRS Report RS20365, *Taiwan: Annual Arms Sales Process*, by Shirley Kan.

U.S. military officers observed Taiwan's Hankuang-17 annual military exercise in 2001, the first time since 1979.<sup>21</sup> The Pacific Command's Asia-Pacific Center for Security Studies accepted fellows from Taiwan in its Executive Course for the first time in the summer of 2002.<sup>22</sup> By the summer of 2002, the U.S. and Taiwan militaries reportedly discussed setting up an undersea ASW link to monitor the PLA Navy's submarines.<sup>23</sup> The U.S. and Taiwan militaries set up a hotline in 2002 to deal with possible crises.<sup>24</sup>

In addition, in 2002, the Administration asked Congress to pass legislation to authorize the assignment of personnel from U.S. departments (including the Defense Department) to AIT, allowing the assignment of active-duty military personnel to Taiwan for the first time since 1979. The objective was to select from a wider range of personnel, without excluding those on active duty. The first active-duty defense attache since 1979, Army Colonel Albert Willner, began his duty in Taipei in August 2005 with civilian clothes and a status similar to military attaches assigned to Hong Kong, except that military personnel in Hong Kong may wear uniforms on special occasions. Also, the Defense Security Cooperation Agency (DSCA) assigned Army Colonel Peter Notarianni to oversee security assistance programs at AIT in Taipei.<sup>25</sup>

Also, the Acting Under Secretary of Defense for Acquisition, Technology, and Logistics, Michael Wynne, submitted a letter to Congress on August 29, 2003, that designated Taiwan as a "major non-NATO ally." (See *107<sup>th</sup> Congress* below.)

**Senior-Level Exchanges.** The United States and Taiwan have held high-level defense-related meetings in the United States. The Bush Administration granted a visa for Defense Minister Tang Yiau-ming to visit the United States to attend an industry conference held by the U.S.-Taiwan Business Council on March 10-12, 2002 (in St. Petersburg, FL), making him the first ROC defense minister to come to the United States on a non-transit purpose since 1979.<sup>26</sup> Tang met with Deputy Secretary of Defense Paul Wolfowitz, who also spoke at the conference.<sup>27</sup> However, after this visit, Taiwan's Defense Minister Lee Jye has declined to travel to the United States. In September 2002, a deputy defense minister, Kang Ning-hsiang, visited Washington and was the first senior Taiwan defense official to have

<sup>21</sup> *Chung-Kuo Shih-Pao* [China Times], Taipei, July 18, 2001. The *China Times* (May 27, 2004) quotes Defense Minister Lee Jye confirming that U.S. military personnel observed Hankuang-17, Hankuang-18, and Hankuang-19 exercises to evaluate Taiwan's military.

<sup>22</sup> *CNN.com*, March 18, 2002; Author's discussions in Hawaii in July 2002.

<sup>23</sup> *Tzu-Yu Shih-Pao* [Liberty Times], Taipei, July 20, 2002.

<sup>24</sup> *Jane's Defense Weekly*, October 29, 2003.

<sup>25</sup> Department of Defense, DSCA contract awarded to AIT to support DSCA active-duty military and civil service personnel, September 24, 2005.

<sup>26</sup> In December 2001, the previous ROC Defense Minister, Wu Shih-wen, made a U.S. transit on his way to the Dominican Republic.

<sup>27</sup> Deputy Secretary of Defense Paul Wolfowitz, "Remarks to the U.S.-Taiwan Business Council," March 11, 2002.

meetings inside the Pentagon since U.S.-ROC diplomatic ties severed in 1979, although a meeting with Wolfowitz took place outside the Pentagon.<sup>28</sup>

In January 2003, a Taiwanese newspaper leaked information that a U.S. military team planned to participate in — beyond observe — the Hankuang-19 military exercise and be present at Taiwan's Hengshan Command Center for the first time since 1979.<sup>29</sup> On the same day, General Chen Chao-min, a deputy defense minister, confirmed to Taiwan's legislature a U.S. plan for a non-combatant evacuation operation (NEO). However, the leak and confirmation reportedly prompted annoyance in Washington and contributed to a U.S. decision to limit General Chen's visit to the United States in February 2003 to attendance at a private sector conference on Taiwan's defense (in San Antonio, TX), without a visit to Washington.<sup>30</sup> Deputy Assistant Secretary of Defense Richard Lawless and Deputy Assistant Secretary of State Randall Schriver met with General Chen.

The Hankuang-19 exercise took place in April-May 2003, with participation by about 20 U.S. military personnel and retired Admiral Dennis Blair, who just retired as the Commander of the Pacific Command (PACOM). The exercise reportedly raised questions about the military's will to fight and ability to sustain defense before possible U.S. support.<sup>31</sup> Deputy Defense Minister Lin Chong-pin visited Washington in June 2003 to respond to concerns about Taiwan's commitment to self-defense. The Hankuang-20 exercise included a reportedly U.S.-provided computer simulation in August 2004 that resulted in the PLA invading and capturing the capital, Taipei, within six days.<sup>32</sup> Through the Hankuang-22 exercise in April 2006, Blair and PACOM personnel attended as observers.<sup>33</sup> Earlier that month, Taiwan's president and other top officials held a Yushan exercise to prepare for a "decapitation" attack by the PRC, with no U.S. participation.<sup>34</sup>

In October 2004, Taiwan's Deputy Minister for Armaments, General Huoh Shouo-yeh, attended a U.S.-Taiwan defense industry conference (in Scottsdale, AZ). In May 2005, the Chief of General Staff, General Lee Tien-yu, visited the United States, but he was the first Chief of General Staff from Taiwan willing to make the biennial visit since General Tang Fei's visit in 1998.<sup>35</sup> In September 2005, Deputy Minister Huoh again attended a U.S.-Taiwan defense industry conference (in San Diego, CA), and in September 2006, Deputy Defense Minister for Policy Ko Chen-heng attended the next annual conference (in Denver, CO).

<sup>28</sup> *Reuters*, September 10, 2002.

<sup>29</sup> *Chung-Kuo Shih-Pao [China Times]*, January 2, 2003.

<sup>30</sup> *Taiwan Defense Review*, January 18, 2003; *Straits Times* (Singapore), January 21, 2003.

<sup>31</sup> *Lien-Ho Pao [United Daily News]* (Taipei), April 16, 2003; *China Times* (Taipei), April 19, 2003; *Taipei Times*, April 25, 2003; *Central News Agency* (Taipei), May 9, 2003.

<sup>32</sup> *AFP*, August 11, 2004; *Taiwan News*, August 12, 2004.

<sup>33</sup> *Taipei Times*, April 25, April 30, May 1, and May 30, 2006.

<sup>34</sup> *Liberty Times* (Taipei), April 13 and 16, 2006; and author's consultations in Taipei.

<sup>35</sup> *Lien-Ho Pao [United Daily News]* (Taipei), May 26, 2005.

## April 2001 Arms Requests and Status of Arms Sales

**April 2001 Decisions.** In 2001, arms sales talks took place on April 24 in Washington, DC, and Taiwan was represented by its Vice Chief of General Staff, General Huoh Shou-yeah. According to the Administration and news reports,<sup>36</sup> President Bush *approved* Taiwan's request for: 8 diesel-electric submarines; 12 P-3C Orion anti-submarine warfare (ASW) aircraft (linked to the submarine sale); 54 Mark-48 ASW torpedoes; 44 Harpoon submarine-launched anti-ship cruise missiles; 144 M109A6 Paladin self-propelled howitzers; 54 AAV7A1 amphibious assault vehicles; AN/ALE-50 electronic countermeasure (ECM) systems for F-16s; and 12 MH-53 mine-sweeping helicopters. Also approved for sale were four decommissioned Kidd-class destroyers, offered as Excess Defense Articles (EDA), not FMS. The Administration also decided to brief Taiwan's military on the PAC-3 missile defense missile.<sup>37</sup>

President Bush *deferred* decisions on destroyers equipped with the Aegis combat system. Bush also deferred decisions on M1A2 Abrams main battle tanks and AH-64D Apache Longbow attack helicopters, pending a U.S. assessment of Taiwan's army. (The request for Abrams tanks was approved later in 2001.<sup>38</sup>)

President Bush *denied* Taiwan's requests for Joint Direct Attack Munitions (JDAM) and High-speed Anti-radiation Missiles (HARM) that target radar-equipped air defense systems. (At the U.S.-Taiwan Business Council's conference in February 2003, however, Deputy Under Secretary of the Air Force Willard Mitchell indicated that these requests were under review. A possible basis for reviewing any renewed requests from Taiwan was found in the Pentagon's report on PRC Military Power submitted in July 2003 to Congress, which confirmed that the PLA procured from Israel "a significant number of HARPY anti-radiation systems." The press first reported on the PLA's acquisition of the HARPY drones in 2002.<sup>39</sup> By the second half of 2004, the Administration reportedly considered a new request for HARM

<sup>36</sup> White House, press briefing, April 24, 2001; Department of Defense, news briefing, April 24, 2001; David Sanger, "Bush is Offering Taiwanese Some Arms, But Not the Best," *New York Times*, April 24, 2001; Steven Mufson and Dana Milbank, "Taiwan to Get Variety of Arms," *Washington Post*, April 24, 2001; Neil King Jr., "Bush Defers Sale of Aegis to Taiwan, Will Offer Four Kidd-Class Destroyers," *Wall Street Journal*, April 24, 2001; "U.S. Refuses Taiwan Request for JDAM, HARM, and PAC-3 Missiles," *Aerospace Daily*, April 25, 2001; and "U.S. Formally Informs ROC of Arms Sales Decision," *Central News Agency* (Taiwan), April 25, 2001.

<sup>37</sup> *Taiwan Defense Review*, January 18, 2003, reported the briefing took place in late 2001.

<sup>38</sup> Mark Stokes, "Taiwan's Security: Beyond the Special Budget," AEI, March 27, 2006.

<sup>39</sup> *Washington Times*, July 2, 2002; *Guangzhou Daily* (via FBIS), July 4, 2002; *Ha'aretz*, Tel Aviv, July 25, 2002; *Flight International*, November 5-11, 2002.

missiles (submitted in August 2004), while a decision on JDAM guidance kits also remained pending.<sup>40</sup> However, in 2005, the Administration denied these requests.<sup>41)</sup>

**Amphibious Assault Vehicles.** Taiwan agreed to purchase the AAV7A1 amphibious assault vehicles, under a program administered by the U.S. Marine Corps. The Administration notified Congress in September 2002. United Defense Industries obtained a contract in June 2003, and deliveries began in March 2005.<sup>42</sup>

**Attack Helicopters.** After deferring a decision on Taiwan's request, the Bush Administration, in May 2002, approved the request for attack helicopters, and Taiwan began negotiations on 30 AH-64D Apache Longbow helicopters sold by Boeing.<sup>43</sup> Afterwards, Taiwan also has considered the AH-1Z Cobra helicopters sold by Bell.<sup>44</sup> By 2005, Sikorsky proposed its armed UH-60 Black Hawk helicopters.<sup>45</sup>

**Kidd-Class Destroyers.** In October 2002, the Defense Committee of Taiwan's legislature engaged in a sharp partisan debate over whether to approve funding (about \$800 million) to buy the U.S. Navy's four currently available Kidd-class destroyers, ending with 18 lawmakers from the ruling Democratic Progressive Party (DPP) and Taiwan Solidarity Union (TSU) voting in favor, against 16 legislators from the opposition Kuomintang (KMT) and People's First Party (PFP).<sup>46</sup> Then, legislators conditioned funding on bargaining with the U.S. Navy on a 15% price reduction. On May 30, 2003, Taiwan's legislature finally voted to release the funding. The U.S. Navy began reactivation and upgrade of the Kidds in July 2003<sup>47</sup> for delivery of the 9,600-ton destroyers ahead of schedule from October 2005 to 2006. Taiwan's Naval Commander-in-Chief, Marine General Chen Pang-chih, attended the transfer ceremony in Charleston, SC, for the first two destroyers on October 29, 2005, in the presence of Representative Henry Brown. The destroyers, the largest warships in Taiwan's navy, are equipped with SM-2 air-defense missiles and a joint combat management system. The transfer ceremony for the final two Kidds took place in Charleston, SC, on August 25, 2006.

**Aegis-Equipped Destroyers.** The Department of Defense considered the Kidds as platforms to provide Taiwan's navy with the necessary operational

<sup>40</sup> *Taiwan News*, October 6, 2004; *Washington Times*, October 8, 2004; *Taiwan Defense Review*, November 26, 2004.

<sup>41</sup> Wendell Minnick, "U.S. Rejects Taiwan Request for HARM and JDAM Kits," *Jane's Defense Weekly*, January 18, 2006.

<sup>42</sup> *Jane's International Defense Review*, September 2003; *Taiwan Defense Review*, March 4, 2005.

<sup>43</sup> *Taipei Times*, May 26, 2002; *Jane's Defense Weekly*, June 5, 2002.

<sup>44</sup> *Jane's Defense Weekly*, March 10 and 24, 2004.

<sup>45</sup> *Ibid.*, August 24, 2005.

<sup>46</sup> Author's visit to Taiwan; and *Taipei Times* and *China Post* (Taipei), November 1, 2002.

<sup>47</sup> *Taipei Times*, September 5, 2003; *Taiwan Defense Review*, March 10, 2004; *Taipei Times*, September 15, 2004; *Jane's Defense Weekly*, November 10, 2004.

experience before any possible acquisition of more advanced Aegis-equipped ships.<sup>48</sup> The U.S. Navy deploys the Aegis combat system (e.g., on the Arleigh Burke-class destroyer) for air defense and applies it in development of a future Navy missile defense system (using SM-3 missiles). An alternative to the Arleigh Burke that retains the Aegis Spy-1D radar, called the Evolved Advanced Combat System (EACS) has been considered. The Aegis combat system has the capability to track over 100 targets and to conduct simultaneous anti-air, anti-surface, and anti-submarine operations. During the U.S. war in Iraq in 2003, the Aegis combat system helped the Patriot missile defense system to detect and intercept Iraqi missiles.<sup>49</sup> In 2003, Taiwan again requested four new Arleigh Burke-class, Aegis-equipped destroyers, for delivery in 2010 and at an estimated cost of about \$4.8 billion.<sup>50</sup>

**Submarines.** Despite initial press reports skeptical about the sale of submarines (because the United States no longer manufactures diesel-electric submarines), the Department of Defense has discussed options for a Foreign Military Sales (FMS) program for eight boats with U.S. and foreign companies and Taiwan. In November 2001, seven companies submitted bids and concept papers to the Department of the Navy. Companies interested in the contract reportedly include U.S. manufacturers, Northrop Grumman (with its Ingalls Shipbuilding shipyard) and General Dynamics (with its Electric Boat shipyard); Germany's HDW; the Netherlands' RDM (which sold its Zwaardvis-class submarine design to Taiwan in the 1980s for two Hai Lung [Sea Dragon]-class submarines); France's DCN; and Spain's IZAR (now Navantia). Although the Administration promised to help Taiwan buy submarines, not build them, Taiwan's China Shipbuilding Corporation also became interested in a part of the contract, with support from some of Taiwan's legislators. The U.S. Navy discussed options with Taiwan's Navy in July 2002 and initially planned to select the manufacturer(s) to design and build the submarines in the latter half of 2003.<sup>51</sup> On December 6, 2002, Secretary of the Navy Gordon England informed Congress in a Determination and Findings memo that bidding would be limited to four U.S. companies and the diesel subs would be of U.S. origin.<sup>52</sup> The U.S. Navy held a second Industry Day on December 17, 2002, with General Dynamics, Northrop Grumman, Lockheed Martin, and Raytheon interested in being the prime contractor.<sup>53</sup>

<sup>48</sup> Consultations; and Wendell Minnick, "What Those Systems are All About," *Topics*, November 2004.

<sup>49</sup> Discussion with Lockheed Martin executive, June 10, 2004; and U.S. Army, 32<sup>nd</sup> Army Air and Missile Defense Command, Fort Bliss, TX, "Operation Iraqi Freedom: Theater Air and Missile Defense," September 2003.

<sup>50</sup> Lien-Ho Pao, September 1, 2004; *Taiwan Defense Review*, December 19, 2004.

<sup>51</sup> Central News Agency (Taiwan), July 30, 2002; *Taipei Times*, July 31, 2002; *Defense Daily*, September 16, 2002.

<sup>52</sup> Gordon England, Memorandum to Congress with Determination and Findings, December 6, 2002.

<sup>53</sup> *Knight-Ridder/Tribune Business News*, December 17, 2002.

The U.S. Navy provided the Independent Cost Estimate (ICE) on January 17, 2003.<sup>54</sup> The ICE put the sub program at about \$10.5 billion, but private sector estimates have been said to be lower (perhaps \$6-7 billion). Greater risks and costs were factored into the ICE because of uncertainty about funding by Taiwan and the availability of European designs.

However, by April 2003, the sale became at risk, when the United States and Taiwan reached an impasse over the program start-up costs estimated by the U.S. Navy at \$333 million, but offered at \$28.5 million by Taiwan. On May 20-23, 2003, Taiwan's Navy sent a delegation led by Vice Admiral Kao Yang to Washington to discuss the issue, but the differences reportedly remained unresolved.<sup>55</sup> Facing the delays in Taiwan's commitment of funds (although it first requested submarines in 1995) and a long acquisition process, the Administration then viewed the program as a long-term solution for Taiwan that would not meet the near-term blockade and submarine threats posed by the PLA Navy.<sup>56</sup> Defense Minister Tang Yiau-ming told visiting AIT Chairwoman Therese Shaheen on October 16, 2003, that Taiwan still placed a high priority on acquiring the submarines.<sup>57</sup> Meanwhile, in 2003, the Bush Administration inquired with Italy about buying eight decommissioning Sauro-class diesel-electric submarines for the estimated cost of about \$2 billion for delivery starting in 2006, but Taiwan's military opted for newly built submarines.<sup>58</sup>

A team from the U.S. Navy's International Program Office arrived in Taipei in October 2003, for further talks on whether Taiwan will procure submarines.<sup>59</sup> The U.S. team also met with some of Taiwan's legislators, including Lin Yu-fang of the opposition People First Party.<sup>60</sup> Lin was one of the sponsors of legislation passed in May 2002, requiring Taiwan's navy to arrange for six of the eight submarines to be built in Taiwan using technology transfers.<sup>61</sup> The total cost of new submarines could reach \$9-12 billion,<sup>62</sup> leading Taiwan's political leaders to consider a controversial Special Budget.<sup>63</sup> (See *Taiwan's Commitment to Self-Defense and Budgets*, below.)

<sup>54</sup> *Tung-sen Hsin-wen Pao*, Taipei, September 28, 2005.

<sup>55</sup> *United Daily News* (Taipei), April 21, 2003 and April 22, 2003; *Taiwan Defense Review*, May 17, 2003 and May 30, 2003.

<sup>56</sup> U.S.-Taiwan Business Council, *Defense and Aerospace Report*, Second Quarter 2003; *Bloomberg*, July 10, 2003; *Defense Daily*, July 11, 2003; *TDRReview*, September 19, 2003.

<sup>57</sup> *Central News Agency*, Taipei, October 16, 2003.

<sup>58</sup> Wendell Minnick, "Submarine Decisions Show Lack of Creativity," *Taipei Times*, October 16, 2004.

<sup>59</sup> *Lien-ho Pao* [United Daily News], Taipei, October 23, 2003; *Central News Agency*, Taipei, October 26, 2003.

<sup>60</sup> *Taipei Times*, October 31, 2003; *Central News Agency*, November 2, 2003.

<sup>61</sup> Author's discussion with Lin Yu-fang in Taipei in December 2003.

<sup>62</sup> *Lien-ho Pao* [United Daily News], August 25, 2003; *Taipei Times*, October 31, 2003.

<sup>63</sup> *Taiwan Defense Review*, April 30, 2004.

Taiwan's new demand for domestic industrial participation had added another issue and greater potential costs to the program (about \$2.5 billion to the total), which U.S. Navy officials discussed with potential prime contractors at the 3<sup>rd</sup> Industry Day meeting on December 15, 2003, in Washington.<sup>64</sup> However, Deputy Secretary of Defense Wolfowitz told Taiwan's visiting legislative delegation on June 21, 2004, that the Bush Administration approved Taiwan's request for assistance in purchasing submarines but is opposed to Taiwan's new proposal to build them in Taiwan.<sup>65</sup> With U.S. opposition to Taiwan's domestic production of submarines conveyed in official letters from the Defense Department in May and July 2004, Minister of Defense Lee Jye estimated that the cost of the submarines could be reduced.<sup>66</sup> Depending on the funds ultimately approved in Taiwan, the scope of a program could be restricted to fewer than eight boats.

Thus, with delays in Taiwan's decision-making after 2001, Taiwan's request for and the Bush Administration's approval of a sale of submarines have met with mixed opinions in Taipei and Washington. In early 2003, senior officials in the Bush Administration stressed ASW surveillance as one priority for Taiwan's military to consider, with the focus on static arrays and patrol aircraft to track submarines. The Administration approved submarines but did not consider them a priority.<sup>67</sup>

In early 2006, articles appeared alleging that the U.S. Navy failed to effectively implement the diesel sub program for Taiwan, in part to protect the nuclear-powered submarine capability.<sup>68</sup> The Defense Department and the Navy have repeated that they support President Bush's 2001 policy decision on arms sales to Taiwan, but that Taiwan has to commit to fund the program. In February 2006, Representative Rob Simmons visited Taiwan, saying that he represented his district in Connecticut, home to General Dynamics' Electric Boat shipyard. In a speech at the American Chamber of Commerce in Taipei, Simmons suggested that the subs could cost less, perhaps around \$8 billion, and proposed an interim step to break the impasse whereby Taiwan could procure a sub design first, costing perhaps \$225 million.<sup>69</sup> The Navy and DSCA have said that Taiwan could first submit a request for a sub design phase.<sup>70</sup>

On April 3, 2006, Taiwan's military submitted a request for U.S. assessment of the feasibility of using two phases (design then perhaps construction). Deputy Under

<sup>64</sup> Ibid., February 6, 2004 and April 30, 2004.

<sup>65</sup> *United Daily News* (Taipei), June 23, 2004.

<sup>66</sup> *Lien-Ho Pao*, September 8, 2004; *Central News Agency*, October 19, 2004. Deputy Under Secretary of Defense Richard Lawless referred to his previous letters of May 20 and July 7, 2004, in a letter to Defense Minister Lee Jye on June 27, 2006.

<sup>67</sup> U.S.-Taiwan Business Council, *Defense and Security Report*, 2<sup>nd</sup> Quarter 2005.

<sup>68</sup> Wendell Minnick, "Taiwan Claims U.S. Navy is Sabotaging SSN Plans," *Jane's Defense Weekly*, Feb. 15, 2006; "Come Clean on Subs," editorial, *Defense News*, February 13, 2006.

<sup>69</sup> News from Rob Simmons, February 17, 2006; Central News Agency, February 22, 2006; *Taipei Times*, February 23, 2006; *Defense News*, February 27, 2006; and AmCham's *Taiwan Business Topics*, March 2006.

<sup>70</sup> Interviews with Navy and DSCA officials, including consultations in Taipei in April 2006.

Secretary of Defense Richard Lawless conveyed the U.S. policy response to Taiwan's defense minister in an official letter on June 27, 2006, stating that a two-phased approach was "legally permissible and administratively feasible." However, Lawless warned that such a program likely would increase costs and risks, making foreign design firms and their governments less willing to participate. The Defense Department estimated the design phase to cost \$360 million, if Taiwan requests it.<sup>71</sup> Following Lawless' letter, Representative Rob Simmons wrote a letter to Defense Minister Lee Jye on July 17, noting that the next step is for Taiwan to request a letter of offer or acceptance for a phased approach to the design and acquisition of subs.<sup>72</sup>

Meanwhile, the U.S. Navy has requested funds from Taiwan to keep an office to manage the sub program and reportedly warned Taiwan in August 2005 that the "pre-selection" process would stop without such funds. Through March 2006, Taiwan paid \$7.5 million to keep the office open.<sup>73</sup>

In addition to the military and political implications of selling submarines to Taiwan's navy, issues for Congress include potential technology transfers to Taiwan and Europeans, and leaks of secrets from Taiwan to the PRC, that could involve U.S. submarine secrets and implications for the U.S. military.<sup>74</sup> In a report to Congress, as required by the National Defense Authorization Act for FYs 1992-1993, the Secretary of the Navy reported in May 1992 that "to the extent that a potential diesel submarine construction project would draw on U.S. resources, it has the potential to tap into the state-of-the-art technology used in U.S. nuclear powered submarines." The report also noted "the fact that the diesel submarine is not a viable asset in the U.S. Navy" and that "construction of diesel submarines for export in U.S. shipyards would not support the U.S. submarine shipbuilding base and could encourage future development and operation of diesel submarines to the detriment of our own forces." The report also said that "it may be possible to control the release of the most important information and specific technologies of concern, but an effective system would also have significant costs. The problem will be more difficult, however, if a foreign entity is present in the shipyards during submarine construction."

**P-3C ASW Aircraft.** After the United States approved Taiwan's request for 12 P-3C planes, the two sides have negotiated the proposed sale. But Taiwan questioned the estimated cost of \$300 million per new plane (in part due to Lockheed Martin's need to reopen the production line) for a total cost of \$4.1 billion (including parts and training) and sought alternatives in 2003, such as refurbished P-3Bs or surplus P-3Cs retired from the U.S. Navy's fleet. A longer-term option is the Multi-Mission Maritime Aircraft (MMA) under development by Boeing's subsidiary, McDonnell Douglas, for the U.S. Navy. In 2004, Taiwan's Ministry of Defense

<sup>71</sup> Letter from Richard Lawless to Taiwan's Defense Minister Lee Jye, June 27, 2006; Jim Wolf, "U.S. Clears Two-Stage Path to Taiwan Submarine Deal," *Reuters*, July 14, 2006.

<sup>72</sup> Letter from Rob Simmons to Defense Minister Lee Jye, July 17, 2006.

<sup>73</sup> *National Journal*, April 6, 2006; and author's interviews in Taipei in April 2006.

<sup>74</sup> As for U.S. counter-espionage concerns, the FBI sent agents to Taipei to investigate alleged compromises of security on the PRC's behalf at Taiwan military's Chungshan Institute of Science and Technology, reported the *Central News Agency*, August 13, 2003.

sought approval from the legislature of a Special Budget to include funds (about \$1.6 billion) for 12 refurbished P-3C ASW planes (sold as Excess Defense Articles) with possible delivery in 2008-2011.<sup>75</sup> (See discussion on budgets below.) The sale became more complicated in 2006, when L-3 Communications wanted to compete.<sup>76</sup>

**PAC-3 Missile Defense.** After U.S. approval in 1992, Taiwan in 1997 acquired three Patriot missile defense fire units with PAC-2 Guidance Enhanced Missiles. After the Bush Administration in 2001 decided to brief Taiwan on the advanced PAC-3 hit-to-kill missile, Taiwan has considered a deal on the PAC-3 system. (The U.S. Army completed developmental testing of the PAC-3 in October 2001 and conducted operational tests in 2002. The PAC-3 has been deployed with the U.S. Army, as seen in Operation Iraqi Freedom during March-April 2003. Raytheon describes its Patriot system as the world's most advanced ground-based system for defense against aircraft, theater ballistic missiles, and cruise missiles.)

In late 2002, the Pentagon reportedly was disappointed with Taiwan's delay in requesting the PAC-3 system.<sup>77</sup> At a private sector conference on Taiwan's defense in February 2003, Bush Administration officials openly stressed to Taiwan's visiting Deputy Defense Minister Chen Chao-min the imperative of acquiring advanced missile defense systems. (See *Policy Issues for Congress*, below.) In March 2003, Mary Tighe, the Director of Asian and Pacific Affairs, led a Defense Department delegation to Taiwan to urge its acquisition of missile defense systems, including the PAC-3.<sup>78</sup> After Chen criticized the Patriot's performance in Operation Iraqi Freedom in 2003, a Pentagon spokesperson, Jeff Davis, publicly corrected Chen to Taiwan's media on March 27, 2003.<sup>79</sup> According to the U.S. Army, the Patriot missile defense system (with Guidance Enhanced Missiles and PAC-3) intercepted nine Iraqi missiles out of nine engagements.<sup>80</sup> In April 2003, Taiwan submitted to the United States a request for price and availability data in a step towards a contract, and in May 2004, the new Defense Minister Lee Jye requested six PAC-3 units and upgrade of three PAC-2 Plus units to the PAC-3 standard for about US\$4.3 billion.<sup>81</sup>

Complicated by the failure of a referendum to pass in March 2004, Taiwan's military reportedly has looked to buy PAC-3 units, originally seeking funds out of a

<sup>75</sup> *Taiwan Defense Review*, April 30, 2004.

<sup>76</sup> *China Times*, Taipei, September 4, 2006; *Jane's Defense Weekly*, October 18, 2006.

<sup>77</sup> *Taiwan Defense Review*, December 6, 2002.

<sup>78</sup> *Central News Agency* (Taiwan), March 11, 2003.

<sup>79</sup> *Taipei Times*, March 29, 2003.

<sup>80</sup> U.S. Army, 32<sup>nd</sup> Army Air and Missile Defense Command, Fort Bliss, TX, "Operation Iraqi Freedom: Theater Air and Missile Defense," September 2003. For a skeptical view, see Randy Barrett, "Pentagon Releases Candid Glimpse of Missile Defense During Iraq War," *Space News*, November 10, 2003.

<sup>81</sup> *Far Eastern Economic Review*, May 15, 2003; *Jane's*, July 23, 2003; *Taiwan Defense Review*, June 15, 2004.

Special Budget submitted in May 2004 (see discussion on budgets below).<sup>82</sup> Acquisition of missile defense systems has been controversial in Taiwan, with some supporting the development of offensive missiles instead and some preferring short-range missile defense systems. Missile defense also became politicized, when President Chen Shui-bian pushed for a referendum on buying more missile defense systems that was held on the presidential election day on March 20, 2004. That referendum became invalid when only 45% of eligible voters cast ballots (with 50% needed). (Out of the valid ballots cast, 92% agreed with the proposal.) The opposition KMT and PFP parties said they object to acquiring PAC-3 units for three years, based on their interpretation that the referendum “vetoed” the question.<sup>83</sup>

Meanwhile, China’s buildup of short-range ballistic missiles with “adequate precision guidance” could destroy key leadership facilities, military bases, and communication and transportation nodes with “minimal advanced warning,” according to the Pentagon’s 2004 report to Congress on PRC military power.<sup>84</sup> The PRC Military Power issued in July 2005 warned that the PLA’s short-range ballistic missiles increased to 650-730 missiles and are increasing by 75-120 missiles a year.<sup>85</sup>

Since early 2006, Taiwan’s military and lawmakers have debated whether to upgrade Taiwan’s PAC-2 missile defense units, if missile defense systems (PAC-3) are not purchased. Legislative Yuan President Wang Jin-pyng reportedly supports PAC-2 upgrades, but other KMT lawmakers do not support additional purchases of Patriot missile defense. KMT Legislator Shuai Hua-min, a retired army lieutenant general, prefers more “cost-effective” weapons and missile systems as “deterrence.”<sup>86</sup> Taiwan has not upgraded its Patriot missile defense systems (to the latest configuration for radars and command and control with new training and hardware). The cheaper, initial option to first upgrade Taiwan’s three PAC-2 units could cost around US\$500-600 million. In April 2006, after first rejecting Patriot upgrades, Taiwan’s defense ministry requested U.S. price and availability data for PAC-2 upgrades and requested a supplemental budget for Patriot upgrades in 2006.<sup>87</sup>

**Early Warning Radars.** In 1999, some in Congress encouraged the Clinton Administration to approve a sale of early warning radars (see *106<sup>th</sup> Congress*, below), approval that was given in 2000. The Pentagon has stressed the importance of long-range early warning and tracking of ballistic and cruise missile attacks against Taiwan. Taiwan reportedly considered two options: a radar similar to AN/FPS-115

<sup>82</sup> Central News Agency, March 3, 2004; *China Times*, April 13, 2004; *Taiwan Defense Review*, April 30, 2004.

<sup>83</sup> A KMT lawmaker, Su Chi, voiced his objections to missile defense based on the referendum’s result during the author’s visit to Taiwan in October 2004, before his election.

<sup>84</sup> Department of Defense, “Annual Report on the Military Power of the People’s Republic of China,” May 29, 2004.

<sup>85</sup> Department of Defense, “Annual Report to Congress: The Military Power of the People’s Republic of China, 2005,” July 19, 2005.

<sup>86</sup> *Taipei Times*, April 10, 2006; and author’s interview with Shuai Hua-min in April 2006.

<sup>87</sup> Central News Agency, February 21, 2006; *Taipei Times*, February 22, 2006; author’s interview with Raytheon in March 2006; and author’s interviews in Taipei in April 2006.

Pave Paws sold by Raytheon and the LM Digital UHF Radar proposed by Lockheed Martin.<sup>88</sup> Despite divided opinions among lawmakers, in November 2003, Taiwan's legislature approved the Defense Ministry's request for about \$800 million to fund one radar site (rather than an option for two).<sup>89</sup> Nonetheless, on March 30, 2004, the Defense Department notified Congress of the potential sale of two ultra high frequency long range early warning radars, with the potential value of \$1.8 billion, that would enhance Taiwan's ability to identify and detect ballistic missiles as well as cruise missiles, and other threats from the air, and improve the early warning capability of Taiwan's C4ISR architecture. The formal notification pointed out that there will not be U.S. personnel assigned to the radar(s). By early 2005, Taiwan had not contracted for the controversial program, and Lockheed Martin withdrew its bid.<sup>90</sup> In June 2005, Raytheon concluded a contract worth \$752 million to provide one Early Warning Surveillance Radar System to Taiwan by September 2009.<sup>91</sup>

**C4ISR.** In addition, after approval in 1999, the United States reportedly has assisted Taiwan's C4ISR program (named Po Sheng), involving sales of datalink systems and integration of the services into a joint command and control system.<sup>92</sup> In July 2001, the Bush Administration notified Congress of a proposed sale of Joint Tactical Information Distribution Systems (JTIDS)/Link 16 terminals, a basis for an expanded program. In early 2003, the Administration signaled to Taiwan that this FMS program (managed by the U.S. Navy's SPAWAR command) should be given top priority. Taiwan opted for a program costing a total of about \$1.4 billion, rather than a more comprehensive option costing about \$3.9 billion.<sup>93</sup> In September 2003, Lockheed Martin obtained a contract with the initial value of \$27.6 million.<sup>94</sup> The notification to Congress submitted on September 24, 2003, indicated that the total value could reach \$775 million. Taiwan's Defense Ministry also decided not to integrate U.S. communications security (COMSEC) equipment that could facilitate crisis-management and interoperability.<sup>95</sup> Full Operational Capability of the Po Sheng C4ISR program is expected at the end of 2009.<sup>96</sup>

**AMRAAM and SLAMRAAM.** In April 2000, the Clinton Administration approved the sale of AIM-120 Advanced Medium-Range Air-to-Air Missiles (AMRAAMs) to Taiwan, with the understanding that the missiles would be kept in

<sup>88</sup> *Jane's Defense Weekly*, March 26, 2003 and February 11, 2004.

<sup>89</sup> *Taiwan Defense Review*, November 26, 2003; *Jane's Defense Review*, December 3, 2003.

<sup>90</sup> *Jane's Defense Weekly*, February 9, 2005.

<sup>91</sup> Raytheon, June 23, 2005; Department of Defense, Air Force Contract for Raytheon, June 23, 2005; *Wall Street Journal*, June 24, 2005; *CNA*, June 25, 2005.

<sup>92</sup> *Chung-Kuo Shih-Pao [China Times]* (Taiwan), July 18, 2001; *Defense and Aerospace* (U.S.-Taiwan Business Council), 2001; *Taiwan Defense Review*, August 27, 2002.

<sup>93</sup> SPAWAR briefing at U.S.-Taiwan Defense Industry Conference, February 12-14, 2003; *Taiwan Defense Review*, July 17, 2003; *Tzu-Yu Shih Pao [Liberty Times]*, July 14, 2003.

<sup>94</sup> *Taiwan Defense Review*, September 17, 2003; *Jane's Defense Weekly*, October 1, 2003.

<sup>95</sup> U.S.-Taiwan Business Council, "Defense & Security Report," Third Quarter 2004.

<sup>96</sup> U.S.-Taiwan Business Council, defense conference, San Diego, CA, September 19, 2005.

storage on U.S. territory and transferred later to Taiwan, if/when the People's Liberation Army (PLA) acquires a similar Russian missile, like the R-77 (AA-12) air-to-air missile, or threatens to attack Taiwan. In September 2000, the Administration notified Congress of a potential sale of 200 AMRAAMs.

On July 1, 2002, the *Washington Times* reported that, in June, two SU-30 fighters of the PLA Air Force test-fired AA-12 medium-range air-to-air missiles acquired from Russia. The report raised questions as to whether the PLA already deployed the missiles. According to *Reuters* (July 10, 2002), Raytheon planned to finalize production of the AMRAAMs for Taiwan by the fall of 2003. Some in Congress urged the Bush Administration to transfer the AMRAAMs to Taiwan after production. (See 107<sup>th</sup> Congress, below.)

By the end of 2002, the Bush Administration authorized delivery of the AMRAAMs to Taiwan and briefed its air force on ground-launched AMRAAMs.<sup>97</sup> (The U.S. Army has developed the Surface Launched Advanced Medium Range Air-to-Air Missile, or SLAMRAAM, for cruise missile defense.) By November 2003, Taiwan received its first delivery of AMRAAMs, and a pilot of Taiwan's air force test-fired an AMRAAM at Tyndall Air Force Base in Florida on November 10, 2003.<sup>98</sup> However, although the Clinton Administration agreed to Taiwan's request for 200 AMRAAMs for Taiwan's 150 F-16 fighters, Taiwan's Air Force actually purchased only 120 AMRAAMs (although some U.S. observers think Taiwan needs at least 350 AMRAAMs).<sup>99</sup> By April 2004, the Defense Department reportedly encouraged Taiwan to acquire the SLAMRAAM to help counter the PLA's expected deployment of land attack cruise missiles.<sup>100</sup>

**Taiwan's Decisions.** Since the U.S. response to Taiwan's requests in 2001, attention has turned to Taiwan, where the military, civilian officials, and competing political parties in a newly assertive legislature (Legislative Yuan, or LY) have debated contentious issues. These issues include the urgency of a possible PLA attack, how much to spend on defense, which U.S. weapons systems to buy, whether to respond to perceived U.S. pressure, and what the defense strategy should be. The debate has taken place as the Pentagon has warned of the PLA's accelerated buildup in a coercive strategy targeting Taiwan. In early 2003, the Bush Administration stressed to Taiwan the imperatives of missile defense, C4ISR, and anti-submarine defenses. In March 2003, Taiwan's Defense Ministry issued a new procurement plan emphasizing those priorities.<sup>101</sup> However, there has been no agreement in Taiwan on priorities for its national security, and getting a political consensus and funding from the legislature has remained questionable in the politicized debate over defense.

<sup>97</sup> Lien-Ho Pao [*United Daily News*], Taipei, January 5, 2003; Remarks of Deputy Under Secretary of the Air Force Willard Mitchell at the U.S.-Taiwan Business Council's conference in February 2003.

<sup>98</sup> *Taiwan Defense Review*, November 15, 2003; *Central News Agency*, November 18, 2003.

<sup>99</sup> Wendell Minnick, "Taiwan's Military will Fire Blanks," *Taipei Times*, May 25, 2005.

<sup>100</sup> *Jane's Defense Weekly*, April 7, 2004.

<sup>101</sup> *Taiwan Defense Review*, March 12, 2003.

**Other Possible Future Sales.** In addition to the major weapon systems discussed above, possible future arms sales to Taiwan's military include:

- signals intelligence (SIGINT) aircraft (perhaps sold by Gulfstream, Raytheon, or Cessna) for which Taiwan reportedly requested price and availability data in 2002;
- C-27J Spartan medium transport aircraft (sold by Lockheed Martin);
- F-35 Joint Strike Fighters (JSF), particularly the short take-off/vertical landing (STOVL) version, under development by Lockheed Martin and foreign partners (including Singapore);
- Stryker armored wheeled vehicles (sold by General Dynamics);
- upgraded engines for F-16 fighters (sold by Pratt & Whitney or General Electric);
- new or surplus F-16C/D fighters;
- CH-53X minesweeping helicopters (developed by Sikorsky)
- search-and-rescue helicopters (Sikorsky or Bell)
- trainer aircraft.<sup>102</sup>

Regarding a possible sale of F-16C/D fighters, Taiwan's Defense Ministry in 2006 requested initial funding (about US\$494 million) to acquire 66 F-16C/Ds and to boost the defense budget in 2007. But President Bush reportedly is reluctant to consider a formal request for F-16s without Taiwan's resolution of pending sales approved in 2001 and without an approved budget for the F-16s from the LY.<sup>103</sup>

## Policy Issues for Congress

Since the early 1990s, and accelerated after the Taiwan Strait crisis of 1995-1996, the PLA has modernized with a missile buildup and foreign arms acquisitions, primarily from Russia.<sup>104</sup> As a result of the PLA's provocative exercises and missile test-firings in 1995 and 1996 that were directed against Taiwan, Congress has increasingly asserted its role vis-a-vis the Administration in determining security assistance for Taiwan, as stipulated by Section 3(b) of the TRA, as well as in exercising its oversight of Section 2(b)(6) of the TRA on the U.S. capacity to resist any resort to force or other forms of coercion against Taiwan. Congress increasingly asserted its role in determining arms sales to Taiwan *before* sales were decided.

<sup>102</sup> *Flight International*, November 25-December 1, 2003; *Jane's Defense Review*, January 14, 2004; U.S.-Taiwan Business Council, *Defense and Aerospace Report*, First Quarter 2004; *Taiwan Defense Review*, May 7, 2004; *Central News Agency*, June 21, 2004; *Flight International*, July 13-19, 2004; *Flight International*, September 7-13, 2004; *Flight International*, December 7-13, 2004; *Taiwan Defense Review*, December 30, 2004; *AFP*, Hong Kong, March 8, 2005; *Jane's Defense Weekly*, May 4, 2005.

<sup>103</sup> In spring of 2006, Taiwan's Defense Ministry considered asking to purchase new F-16C/D (not F-15) fighters (author's interviews in Taipei in April 2006). Also: Wendell Minnick, "Airplane Race in Taiwan Straits," *Defense News*, May 15, 2006; Jim Wolf, "Taiwan Seeks 66 F-16 Fighters," *Reuters*, July 27, 2006; Minnick, "U.S. Debates Taiwan Request for 66 F-16s," *Defense News*, August 28, 2006; author's consultations in September 2006; and *Central News Agency*, Taipei, October 2, 2006 (quoting Minister Lee Jye).

<sup>104</sup> See the Defense Department's annual reports to Congress on PRC Military Power.

Moreover, Section 3(c) of the TRA requires the President to inform Congress “promptly” of any threat to “the security or the social or economic system” of the people on Taiwan and any danger to U.S. interests, so that the President together with the Congress shall determine the appropriate U.S. response. (In March 1996, during the Taiwan Strait Crisis when President Clinton deployed two aircraft carrier battle groups near Taiwan, the State Department nonetheless testified that the situation did not constitute a “threat to the security or the social or economic system” of Taiwan and therefore did not invoke Section 3(c) for a congressional role.<sup>105</sup>) Policy issues center on how effectively the Administration is helping Taiwan’s self-defense, the role of Congress in determining security assistance to Taiwan, and whether aspects of U.S. security assistance are stabilizing or destabilizing and should be adjusted based on changing conditions. Overall, the question for policy is whether to disengage from or increase engagement with Taiwan in a number of specific areas.

**Extent of U.S. Commitment on Defense.** The persistent question for U.S. decision-makers in the military, Administration, and Congress is whether the United States would go to war with the PRC over Taiwan and the purpose of any conflict. The TRA did not replace the Mutual Defense Treaty of 1954 that ended in 1979. Nonetheless, some have called for a clear commitment (to shore up deterrence and help Taiwan’s self-defense), advanced arms sales, interoperability with Taiwan’s military, combined operational training and planning, high-level meetings, and visits by U.S. flag and general officers to Taiwan. Others have argued that the United States should avoid a war with China and needs a cooperative China in a number of global problems, that trends in the Taiwan Strait are destabilizing, and that the United States should limit security assistance as leverage to prevent provocative moves by Taiwan’s leaders. The question of U.S. assistance for Taiwan’s defense involves two aspects: intention (willingness) and capability to assist Taiwan’s self-defense.

In March 1996, President Clinton deployed two aircraft carrier battle groups near Taiwan in response to the PLA’s provocative missile test-firings and exercises. Another question arose in April 2001 when President Bush initially said that he would do “whatever it took to help Taiwan defend herself” if China attacked.

Supporters have viewed such clarity as needed to prevent miscalculations in Beijing and deter attacks against Taiwan. However, critics have argued that Bush encouraged provocations from Taipei, even if the message was not meant for Taiwan, and weakened willingness in Taiwan to strengthen its own defense. Later, when Taiwan’s President Chen Shui-bian advocated referendums and a new constitution, President Bush said that “the comments and actions made by the leader of Taiwan indicate that he may be willing to make decisions unilaterally to change the status quo, which we oppose,” in appearing with PRC Premier Wen Jiabao in the Oval Office on December 9, 2003.

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<sup>105</sup> Assistant Secretary of State for East Asian and Pacific Affairs Winston Lord, before the House International Relations Subcommittee on Asia and the Pacific, hearing on “Crisis in the Taiwan Strait: Implications for U.S. Foreign Policy,” March 14, 1996, 104<sup>th</sup> Congress.

At a hearing in April 2004, in answer to Representative Gary Ackerman's questions about whether President Bush's phrase on "whatever it took to help Taiwan defend herself" means that the United States would go to war with China if Taiwan makes unilateral moves toward independence, Assistant Secretary James Kelly stated that what the president said has a meaning "at the time he says it to those listeners," we intend to fulfill the defense responsibilities under the TRA "to the extent necessary," "we oppose actions that would unilaterally alter Taiwan's status," leaders in Taiwan "misunderstood" if they believe that President Bush supports whatever they do, and "decisions of war and peace are made by the president with consultation with Congress." Assistant Secretary of Defense Peter Rodman replied that President Bush's phrase was a reaffirmation of the TRA, which leaves a certain "ambiguity." Rodman also warned Beijing that its use of force would "inevitably" involve the United States.<sup>106</sup>

In December 2004, Deputy Secretary of State Richard Armitage also clarified the U.S. defense commitment by saying, "we have the requirement with the Taiwan Relations Act to keep sufficient force in the Pacific to be able to deter attack. We are not required to defend. And these are questions that actually reside with the U.S. Congress, who has to declare an act of war."<sup>107</sup>

On June 8, 2005, President Bush qualified U.S. assistance for Taiwan's self-defense if it is invaded by saying that "If China were to invade unilaterally, we would rise up in the spirit of the Taiwan Relations Act. If Taiwan were to declare independence unilaterally, it would be a unilateral decision, that would then change the U.S. equation, the U.S. look at ... the decision-making process."<sup>108</sup>

In September 2005, the Defense Department further clarified the mutual obligations under the TRA and limits to U.S. ability to assist Taiwan's defense. Deputy Under Secretary of Defense Richard Lawless issued a speech, stressing the TRA's focus on Taiwan's self-defense. He declared that,

inherent in the intent and logic of the TRA is the expectation that Taiwan will be able to mount a viable self-defense. For too long, the Taiwan Relations Act has been referenced as purely a U.S. obligation. ... Under the TRA, the U.S. is obligated to "enable" Taiwan to maintain a sufficient self-defense, but the reality is, it is Taiwan that is obligated to have a sufficient self-defense. There is an explicit expectation in the TRA that Taiwan is ready, willing, and able to maintain its self-defense. Taiwan must fulfill its unwritten, but clearly evident obligations under the Taiwan Relations Act by appropriately providing for its own defense while not simply relying on the U.S.'s capacity to address a threat in the Strait. The TRA requires both parties to do their part to deter aggression or coercion vis-a-vis Taiwan.<sup>109</sup>

<sup>106</sup> House International Relations Committee, hearing on "The Taiwan Relations Act: The Next 25 Years," April 21, 2004.

<sup>107</sup> Richard Armitage, Interview with PBS, December 10, 2004.

<sup>108</sup> President George W. Bush, "Your World with Neil Cavuto," *Fox News*, June 8, 2005.

<sup>109</sup> The speech was read by a DSCA official, Ed Ross, on September 19, 2005, in San Diego,  
(continued...)

A co-chair of the House Taiwan Caucus, Representative Steve Chabot, stated on September 27, 2005, at the Heritage Foundation that Taiwan is only one ally and that it is principally Taiwan's responsibility to defend itself. He said that it has been "frustrating" and "disappointing" to many Members of Congress that Taiwan delayed passage of the Special Budget on arms procurement. He warned that if Taiwan does not pass the Special Budget, many Members of Congress will "re-evaluate the extent of support for Taiwan."

Taiwan's President Chen Shui-bian announced on February 27, 2006, that he would "terminate" the National Unification Council, again raising questions about new tensions. Senator John Warner, Chairman of the Armed Services Committee, told Adm. William Fallon, Commander of the Pacific Command, at a committee hearing on March 7, 2006, that "if conflict were precipitated by just inappropriate and wrongful politics generated by the Taiwanese elected officials, I'm not entirely sure that this nation would come full force to their rescue if they created that problem."

**Jiang Zemin's Offer on Missiles.** Moreover, there has been much interest among U.S. academic circles and think tanks for Washington to pursue talks with Beijing on its military buildup and U.S. arms sales to Taiwan (instead of simply enhancing security assistance to Taiwan).<sup>110</sup> A catalyst for this debate among policymakers arose out of the U.S.-PRC summit in Crawford, TX, on October 25, 2002. As confirmed to Taiwan's legislature by its envoy to Washington, C.J. Chen, and reported in Taiwan's media, PRC ruler Jiang Zemin offered in vague terms a freeze or reduction in China's deployment of missiles targeted at Taiwan, in return for restraint in U.S. arms sales to Taiwan.<sup>111</sup> President Bush reportedly did not respond directly to Jiang's linkage. Editorials in Taiwan were divided on whether to pursue Jiang's offer.

Some argued that confidence building measures, such as a freeze or reduction in PLA missile and other military deployments, would improve the chances for cross-strait political dialogue and lead to greater stability. They said that the United States could explore how the PRC might reduce the threat against Taiwan, such as dismantling missile brigades in a verifiable manner, since sales of U.S. systems are based on Taiwan's defense needs. They argued that Jiang's offer represented the first time that the PRC offered meaningfully to discuss its forces opposite Taiwan. Others

<sup>109</sup> (...continued)

CA, at the Defense Industry Conference of the U.S.-Taiwan Business Council, while Lawless was delayed in Beijing at the Six-Party Talks on North Korea's nuclear weapons.

<sup>110</sup> See David Lampton and Richard Daniel Ewing, "U.S.-China Relations in a Post-September 11<sup>th</sup> World," Nixon Center, August 2002; David Shambaugh's arguments at conference by Carnegie Endowment, Stanford University, Center for Strategic and International Studies, and National Committee on U.S.-China Relations, on "Taiwan and U.S. Policy: Toward Stability or Crisis?," October 9, 2002; Michael Swaine, "Reverse Course? The Fragile Turnaround in U.S.-China Relations," Carnegie Endowment Policy Brief, February 2003; and David Lampton, "The Stealth Normalization of U.S.-China Relations," *National Interest*, fall 2003.

<sup>111</sup> *Chung-Kuo Shih-Pao [China Times]*, Taipei, November 22, 2002; *Taipei Times*, November 23, 2002.

said that a freeze or redeployment of missiles would not eliminate the PRC's continuing and broader military threat against Taiwan (including mobile missiles that can be re-deployed) and that the PRC should hold direct talks with leaders in Taipei instead. They argued that Jiang did not seek to reduce the PLA's coercive threat but to undermine the relationship between Washington and Taipei, including sales and deliveries of weapons systems which take years to complete. They pointed out that the PLA's missile buildup has continued.

One issue for congressional oversight has concerned whether and how the Administration might deal with Beijing on the question of U.S. arms sales to Taiwan. Policy considerations include the TRA, the 1982 Joint Communiqué (which discussed reductions in U.S. arms sales to Taiwan premised on the PRC's peaceful unification policy), and the 1982 "Six Assurances" to Taiwan (including one of not holding prior consultations with the PRC on U.S. arms sales to Taiwan). At a hearing in March 2001, Secretary of State Colin Powell assured Senator Helms that the "Six Assurances" would remain U.S. policy and that the Administration would not favor consulting the PRC on arms sales to Taiwan.<sup>112</sup> The Bush Administration reportedly did not counter Jiang's verbal offer, noting the accelerated missile buildup, continued military threats against Taiwan, the need for the PRC to talk directly to Taiwan, the TRA, and the "Six Assurances" to Taiwan. Nonetheless, in April 2004, Assistant Secretary of State James Kelly testified that if the PRC meets its stated obligations to pursue a peaceful resolution of the Taiwan issue and matches its rhetoric with a military posture that bolsters and supports peaceful approaches to Taiwan, "it follows logically that Taiwan's defense requirements will change."<sup>113</sup> In May 2005, an official PRC newspaper reported that the PLA continues to debate the question of whether to "withdraw" missiles opposite Taiwan.<sup>114</sup>

**Taiwan's Missile Programs.** Referencing the TRA's Section 2(b)(5) "to provide Taiwan with arms of a defensive character," policy-makers face a question of how to respond to Taiwan's increasing interest in offensive strike (ballistic and cruise missiles). Some politicians in Taiwan talk about missiles as a "deterrent." Some Americans see Taiwan's strategy as inherently defensive against the PRC. Others, such as former Deputy Assistant Secretary of State Randall Schriver, called this desire for offensive weapons an "unhelpful diversion," because they are not the "short cuts" for needed upgrades in defense.<sup>115</sup> Bush Administration officials reportedly are quietly opposed to Taiwan's missile programs, but the U.S. policy stance is unclear.<sup>116</sup> A State Department official declined to comment on Taiwan's missile programs at a U.S.-Taiwan defense conference in September 2006. But at a press conference in October 2006, the U.S. Representative in Taipei, Stephen Young, said that U.S. policy helps Taiwan to have self-defense, "not to attack the mainland, because that was never in the cards and still isn't now, but to defend itself."

<sup>112</sup> Senate Foreign Relations Committee, Hearing on U.S. Foreign Policy, March 8, 2001.

<sup>113</sup> House International Relations Committee, Hearing on "The Taiwan Relations Act: The Next 25 Years," April 21, 2004.

<sup>114</sup> *Qingnian Cankao* [Youth Reference News], Beijing, May 26, 2005.

<sup>115</sup> U.S.-Taiwan Business Council, "Defense & Security Report," 3<sup>rd</sup> Quarter 2005.

<sup>116</sup> *Lien-ho Pao*, Taipei, October 21, 2006, quoting unnamed U.S. officials.

**Taiwan's Commitment to Self-Defense and Budgets.** Congress has oversight of the Administration's dialogue with Taiwan about its self-defense and military budgets. Congress also has discussed with Taiwan these responsibilities. Since 2002, some have expressed increasing concerns about Taiwan's commitment to its self-defense and lack of national consensus on national security. The Pentagon's report on PRC Military Power submitted to Congress in July 2002 said that reforms in Taiwan's military were needed to achieve a joint service capability to meet the growing challenge from the PLA's modernizing air, naval, and missile forces, but warned that "the defense budget's steady decline as a percentage of total government spending will challenge Taiwan's force modernization."<sup>117</sup> The Pentagon's report issued in July 2003 further stressed that the relative decline in Taiwan's defense budget "increasingly" will challenge its force modernization.<sup>118</sup> In 2003, supporters of Taiwan at the Heritage Foundation urged civilian and military leaders in Taiwan to be "serious" about its own defense.<sup>119</sup>

Taiwan's regular defense budget for 2004 was about US\$7.8 billion, which accounted for 2.4% of GDP and 16.7% of the total government budget, as compared with 3.8% of GDP and 24.3% of total spending in 1994. (See the table below.) These relative declines took place even as the Pentagon has warned of an increased threat posed by the PLA to Taiwan, U.S. support for Taiwan has increased after the 1995-1996 crisis, and the PLA has obtained higher budgets.

The Defense Department has assessed the PRC's public military budget as markedly understating actual defense-related expenditures (by excluding funds for weapons research, foreign arms purchases, etc.). The Secretary of Defense's 2006 report PRC military power estimated that China's total defense spending for 2006 could be \$70-105 billion, two to three times the announced military budget.<sup>120</sup>

The PRC's defense budget can be used as one indicator of the priority placed on the PLA's modernization. On March 4, 2006, without details, China announced a 2006 defense budget of \$35.1 billion, claiming a 14.7% increase from the previous year. Using the PRC's announced budgets, the 2006 budget is a 16% nominal increase over the 2005 budget and a doubling of the 2001 budget. Nominally, China has raised its announced military budget by double-digit percentage increases every year since 1989. After the Taiwan Strait Crisis of 1995-1996, China's announced military budget has increased in real terms (accounting for inflation) every year, including real double-digit percentage increases every year since 1998.

<sup>117</sup> Department of Defense, "Annual Report on the Military Power of the People's Republic of China," July 12, 2002.

<sup>118</sup> Department of Defense, "Report on PRC Military Power," July 30, 2003.

<sup>119</sup> Peter Brookes, "The Challenges and Imperatives in Taiwan's Defense," Heritage Lectures, January 9, 2003; John Tkacik, "Taiwan Must Get Serious About Defense," *Defense News*, January 27, 2003; John Tkacik, "Taiwan Must Grasp on True Defense Needs," *Defense News*, December 1, 2003.

<sup>120</sup> Secretary of Defense, "PRC Military Power Report," May 23, 2006. The Defense Department has estimated China's total military spending at 3.5 to 5% of GDP. For example, see Secretary of Defense, *Proliferation: Threat and Response*, 2001.

For 2005, Taiwan's Ministry of Defense requested a defense budget of NT\$260.7 billion, a *reduction* of NT\$3.1 billion from 2004, and the final 2005 defense budget was NT\$258.5 billion (about US\$8.0 billion).<sup>121</sup>

**Table 1. Taiwan's Defense Budget**

Fiscal year	Military budget (NT\$ bil.)	Military budget (US\$ bil.)	% of GDP	% of total government spending
1994	258.5	9.8	3.8	24.3
1995	252.3	9.5	3.5	24.5
1996	258.3	9.5	3.4	22.8
1997	268.8	9.4	3.3	22.5
1998	274.8	8.2	3.2	22.4
1999	284.5	8.8	3.2	21.6
2000	402.9	12.9	2.9	17.4
2001	269.8	8.0	2.9	16.5
2002	260.4	7.5	2.7	16.4
2003	257.2	7.6	2.6	15.5
2004	261.9	7.8	2.4	16.7
2005	258.5	8.0	2.3	16.1
2006	252.5	7.8	2.2	16.1

**Notes:** This table was compiled using data on the regular, annual defense budgets provided by the ROC's Ministry of National Defense, supplemented with other information, as well as data on GDP and exchange rates reported by Global Insight. The currency is the New Taiwan Dollar (NT\$). The FY2000 budget covered the 18-month period from July 1999 to December 2000.

In August 2005, the Defense Ministry requested a budget for 2006 of NT\$265.7 billion, an increase of NT\$7.2 billion from 2005. However, that budget included an initial request to buy PAC-3 missile defense units, after the Ministry lowered the Special Budget by removing funds for PAC-3. Minister of Defense Lee Jye acknowledged a major “crowding out” impact on the 2006 budget resulting from adding the PAC-3 request to the annual budget. He lamented that he had to cut out 53 new programs that would have invested in combat strength.<sup>122</sup> On January 12, 2006, the legislature voted to cut NT\$11.2 billion (US\$348 million) from the annual defense budget for 2006 (funds that would have been supplementary funds to support procurement of PAC-3 missile defense, P-3C aircraft, and submarines) and did not direct those funds to be used for munitions, training, or other defense needs.

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<sup>121</sup> Consultations in Taipei and Washington; and FBIS report, October 22, 2004.

<sup>122</sup> Central News Agency, Taipei, August 30, 2005.

Taiwan's final 2006 defense budget is NT\$252.5 billion (about US\$7.8 billion), a reduction of NT\$6 billion from the previous year. Meanwhile, the Minister of Defense requested a Supplemental Budget for the 2006 defense budget partly to procure U.S. submarines, P-3C ASW aircraft, and PAC-2 missile defense upgrades, given the lack of legislative approval for the requested Special Budget. In March 2006, the Defense Ministry requested a 2006 Supplemental Budget totaling NT\$13.7 billion (US\$420 million) for 74 defense programs, including NT\$5.6 billion (US\$172 million) for the three weapon systems, but the Cabinet did not agree with it.

With U.S. support, Taiwan's officials have stated a goal of reversing the declining trends and increasing the defense budget to 3% of GDP. In May 2005, Taiwan's Defense Minister Lee Jye requested that the defense budget increase from 2.4% of GDP to 3.0% of GDP in the next five years.<sup>123</sup> President Chen Shui-bian announced on September 12, 2005, the goal of increasing the annual defense budget to 3% of GDP by 2008, and this goal was officially stated in Taiwan's first National Security Report issued by President Chen in May 2006. In reaction to the report, the State Department issued a statement on May 19, 2006, to stress that the United States encourages "Taiwan to boost its defense spending, concentrating in particular on immediate challenges of hardening and sustainability." In August 2006, Taiwan's Executive Yuan (Cabinet) approved a proposed 2007 defense budget of NT\$323.5 billion (US\$9.9 billion), an increase of NT\$71 billion (US\$2.2 billion).<sup>124</sup> A proposal to buy F-16C/D fighters made up NT\$16 billion of this increase, but if the United States denies this request, the amount would be deleted from the budget.<sup>125</sup> This budget request accounts for 2.5% of estimated 2007 GDP (using Global Insight data).

Some legislators in Taiwan have argued that Taiwan's defense spending has been sufficiently significant, that the legislature in the newly consolidated democracy has the right to scrutinize the defense budget, that economic challenges constrain defense spending, and that Taiwan does not need U.S. weapons in an accommodation with the PRC. (See table on Taiwan's real GDP growth below.) Taiwan's officials and legislators have pointed out that Taiwan had funded defense out of separate Special Budgets in addition to the regular (annual) defense budgets. Taiwan's Special Budgets for defense in 1994-2003 totaled US\$22.6 billion and funded procurement of fighter aircraft and military housing construction.<sup>126</sup> Since 2003, anti-American complaints in Taiwan have targeted perceived U.S. "pressure," "extortion," "sucker's arms deals," and "arms dealers' profits."<sup>127</sup>

In June 2003, Deputy Defense Minister Lin Chong-pin and a Defense Committee delegation led by Legislative Yuan President Wang Jin-pyng visited Washington to reassure the Bush Administration and Congress that the government

<sup>123</sup> *Taipei Times*, May 24, 2005.

<sup>124</sup> CNA, August 23, 2006.

<sup>125</sup> Author's consultations with MND officials, September 2006.

<sup>126</sup> Taiwan's official defense budgets and special budgets were provided by Taiwan's representative office in Washington, DC.

<sup>127</sup> *United Daily News*, April 21, 2003; *China Times*, May 8, 2003 and August 18, 2003.

in Taipei remained committed to self-defense.<sup>128</sup> A former official in the Pentagon involved in arms sales decisions wrote in early 2006, that the impasse over Taiwan's defense spending does not symbolize a lack of commitment to self-defense. Mark Stokes contended that the Bush Administration's policy on arms sales to Taiwan was right, but it came at the wrong time.<sup>129</sup>

**Table 2. Taiwan's GDP Growth in Real Terms**

2000	2001	2002	2003	2004	2005	2006	2007
5.8	-2.2	4.2	3.4	6.1	4.1	3.8	3.6

**Source:** Global Insight, August 7, 2006.

**Special Budget Proposed in 2004.** In 2002, Taiwan's Ministry of National Defense said that it needed the legislature to approve NT\$700 billion (about US\$21 billion) over the next 10 years for arms procurement.<sup>130</sup> Taiwan's Defense Ministry has considered a Special Budget of \$15-20 billion to procure the PAC-3 missile defense system, submarines, and P-3 ASW aircraft over 10-15 years. As discussed above, in 2003, Taiwan's military received the U.S. cost estimate for new submarines as well as price and availability data for PAC-3 missile defense systems and refurbished P-3C planes. In May 2003, Minister of Defense Tang Yiau-ming sent a letter to U.S. Deputy Secretary of Defense Wolfowitz that Taiwan planned to submit later a Special Budget to the legislature to procure the three weapon systems. However, Tang allegedly had doubts about the Special Budget's passage, while looking to the regular defense budget to fund items of priority to the Army.<sup>131</sup>

As Taiwan considered a Special Budget, the Pentagon encouraged a decision. In April 2004, Assistant Secretary of Defense for International Security Affairs Peter Rodman testified to Congress that "we have made clear to our friends on Taiwan that we expect them to reverse this budget decline. Though our commitments to Taiwan are enduring, the American people and both the Executive Branch and Congress expect the people of Taiwan to make their own appropriate commitment to their freedom and security." Rodman also stressed that "we expect Taiwan to go forward with its plan to pass a Special Budget *this summer* to fund essential missile defense and anti-submarine warfare systems and programs" [emphasis added].<sup>132</sup> On May 29, 2004, the Pentagon issued the 2004 report to Congress on PRC Military Power, stressing that "the principal indicator of Taiwan's commitment to addressing its shortfalls will be the fate of its annual defense budget" and that "the island's apparent

<sup>128</sup> Meeting at CRS with Lin Chong-pin and congressional staff, June 5, 2003; Luncheon at the Heritage Foundation with Taiwan's legislative delegation led by Wang Jin-pyng, June 24, 2003; TECRO, *Taipei Update*, July 22, 2003.

<sup>129</sup> Mark Stokes, "Taiwan's Security: Beyond the Special Budget," AEI, March 27, 2006.

<sup>130</sup> Chung-Kuo Shih-Pao [*China Times*] (Taipei), May 17, 2002; *Taiwan Defense Review*, August 30, 2002.

<sup>131</sup> U.S.-Taiwan Business Council, "Defense and Security Report," 3<sup>rd</sup> Quarter 2005.

<sup>132</sup> Statement before the House International Relations Committee, hearing on "The Taiwan Relations Act: the Next 25 Years," April 21, 2004.

lack of political consensus over addressing [its military challenges] with substantially increased defense spending is undoubtedly seen as an encouraging trend in Beijing.”

On May 21, 2004, Taiwan’s Defense Minister Lee Jye — a retired Naval Admiral personally committed to procuring new submarines — submitted to the Executive Yuan (Cabinet) a request for a Special Budget for defense totaling about US\$20 billion.<sup>133</sup> On June 2, the Executive Yuan, controlled by the ruling Democratic Progressive Party (DPP), then passed a Special Budget of NT\$610.8 billion (about US\$18.2 billion), with about \$4.3 billion for PAC-3 missile defense systems, \$12.3 billion for submarines, and \$1.6 billion for P-3 aircraft.<sup>134</sup> Taiwan’s legislators have had the options of procuring all three systems, procuring one or two items, alternatives, or none. However, Taiwan’s priorities have remained unclear.

**Taiwan’s Legislative Delegation to the United States.** The Special Budget was not passed in 2004, although the United States urged passage and welcomed the LY’s president, Wang Jin-pyng of the KMT, who led a multi-party delegation to the United States on June 17-27, 2004, to gain direct information on the weapons systems. The LY delegation visited Pearl Harbor Naval Base, HI; Washington, DC; and Fort Bliss, TX. Under Wang’s leadership, legislators from different political parties reached a preliminary consensus in support of the Special Budget during their visit to Washington, where they met with Members of Congress and defense officials. They said they would seek a new cost estimate for the submarines, with the options of a construction or maintenance role for Taiwan’s shipbuilding industry and delivery in 10 (not 15) years (after Deputy Secretary of Defense Wolfowitz personally expressed to the delegation U.S. opposition to Taiwan’s more expensive proposal to build submarines domestically); and that they would consider splitting up the Special Budget to approve funds for the P-3C aircraft and PAC-3 missile defense systems, ahead of considering the subs.<sup>135</sup>

However, Taiwan’s politicians made the Special Budget into a controversial political issue in gearing up for elections for the Legislative Yuan (LY) on December 11, 2004. Opposition parties of the “blue coalition,” the Kuomintang (KMT) and People First Party (PFP), called for drastic cuts in the Special Budget and retained their majority in the LY.

**Rising U.S. Frustrations.** In a speech in October 2004, Deputy Undersecretary of Defense Richard Lawless urged Taiwan’s legislature to “vote in favor of Taiwan’s national security.”<sup>136</sup> In a strong tone, he warned that the Special Budget was a “litmus test” of Taiwan’s commitment to its self-defense and that “inability” to pass the Special Budget would have “serious long-term consequences”

<sup>133</sup> Central News Agency, Taipei, May 26, 2004; *China Times*, Taipei, May 27, 2004.

<sup>134</sup> Central News Agency, Taipei, June 2, 2004.

<sup>135</sup> Discussion with CRS and Congress on June 22, 2004; *United Daily News*, June 23, 2004.

<sup>136</sup> Richard Lawless, Deputy Undersecretary of Defense for Asian and Pacific Affairs, Keynote Address, U.S.-Taiwan Defense Industry Conference, U.S.-Taiwan Business Council, October 4, 2004, Scottsdale, AZ. One of the ROC’s Deputy Ministers of Defense, General Huoh Shou-Yeh, attended the conference.

(for foreign support, further intimidation from Beijing, and perceptions of Taiwan as a “liability”). Lawless also called for Taiwan to expand its efforts from “national defense” to “national security,” including countering coercion and managing crises by protecting critical infrastructure (national command facilities, telecommunications, energy, water, media, computer networks, etc.).

Raising frustrations in the Bush Administration and Congress that Taiwan has not placed a priority on self-defense, it became increasingly doubtful in 2005 that the LY would vote on the Special Budget and fund it at the full level, even if it is considered. Meanwhile, the United States has increased concerns about and shifted focus to the regular defense budget and other questions about Taiwan’s self-defense.

**Cutting the Special Budget in 2005.** In January 2005, President Chen Shui-bian told visiting Representative Tom Lantos that PFP Chairman James Soong changed his position on the Special Budget after visiting Washington where he met with Deputy Under Secretary of Defense Richard Lawless and Deputy Assistant Secretary of State Randy Schriver.<sup>137</sup> The following month, Lawless warned that Taiwan’s failure to approve the Special Budget signaled that it lacked seriousness about its own security, raising questions about whether U.S. support has been necessary or not.<sup>138</sup> In February 2005, the Defense Ministry announced that the Special Budget’s figure dropped to NT\$590 billion (after appreciation of the NT dollar relative to the U.S. dollar) and that the request would be reduced to NT\$480 billion (US\$15.5 billion) (after removing certain costs, including an estimated US\$2.3 billion associated with producing submarines domestically in Taiwan).<sup>139</sup> The reduced figure also factored in moving some infrastructure costs to the annual defense budget, but that budget has faced cuts. The Cabinet approved the new request on March 16 and submitted it to the LY.<sup>140</sup> Two days earlier, the PRC’s National People’s Congress adopted its “Anti-Secession Law,” warning that the government in Beijing “may” use force against Taiwan.

However, Chen and Soong issued a “Ten-Point Consensus” on February 24, 2005, that did not mention the Special Budget. Indeed, the PFP raised another objection, saying that the major items should be funded out of the annual defense budget instead of a Special Budget.<sup>141</sup> The Defense Ministry began to consider asking for funds for the PAC-3 missile defense systems out of the annual defense budget, with submarines as the top priority rather than missile defense stressed by the Bush Administration.<sup>142</sup> In April-May 2005, the chairmen of the opposition parties, KMT’s Lien Chan and PFP’s James Soong, made historic visits of

<sup>137</sup> *Agence France Presse*, Hong Kong, January 17, 2005. The author also confirmed Soong’s meeting with Lawless with the KMT/PFP’s representative in D.C.

<sup>138</sup> *Taipei Times*, February 26, 2005; Lawless gave a speech that was not publicly released, apparently at a meeting in Washington of the U.S.-Taiwan Business Council.

<sup>139</sup> *Taipei Times*, February 16, 2005; February 23, 2005.

<sup>140</sup> *Ettoday*, Taipei, March 16, 2005 (via FBIS).

<sup>141</sup> *Lien-ho Pao [United Daily News]*, Taipei, March 21, 2005.

<sup>142</sup> *Tzu-yu Shih-pao [Liberty Times]*, Taipei, March 21, 2005; *China Post*, March 22, 2005.

reconciliation to mainland China, meeting with Hu Jintao, Communist Party General-Secretary, Central Military Commission Chairman, and PRC President. These visits to the PRC further dampened prospects that the Special Budget would be passed.

**Congressional Appeals.** On May 24, 2005, the LY's Procedure Committee failed to place the Special Budget on the legislative calendar, blocking consideration before the session's end on May 31. On May 27, Representative Rob Simmons and 32 other House Members wrote to KMT chairman Lien Chan, urging him to help expedite passage of the Special Budget in May. They warned that "failure to pass the special budget has raised concerns in the United States about Taiwan's ability to defend itself against potential aggression."<sup>143</sup> However, Lien responded in a three-page letter by making partisan attacks on the DPP and President Chen Shui-bian, and criticisms of the Special Budget although the KMT used special budgets in the 1990s.<sup>144</sup> Moreover, KMT and PFP members of the LY's Defense Committee refused to attend a luncheon on June 9 with the top U.S. representative, AIT's Director Doug Paal, while his strained relationship with the DPP apparently required Deputy Director Dave Keegan to host the DPP lawmakers who showed up to discuss the arms sales.<sup>145</sup> There was no special session in the summer as the ruling DPP requested. On July 16, 2005, the KMT overwhelmingly elected Ma Ying-jeou (Taipei's Mayor) instead of Wang Jin-pyng (LY's President) to replace Lien Chan as KMT Chairman, prompting some to ask whether Ma would show leadership in considering the Special Budget. However, he focused on the city and county elections on December 3, 2005, when the KMT won 14 out of 23 seats.

On August 1, 2005, three co-chairs of the House Taiwan Caucus wrote to Ma Ying-jeou as the new KMT chairman. They urged him to "lead efforts in Taipei to ensure that the Legislative Yuan quickly passes a special arms procurement package or increases its annual defense spending." They also invited Ma to visit Washington.<sup>146</sup> However, Ma responded as the Mayor of Taipei on August 18 (one day before becoming KMT Chairman), by blaming the DPP administration for "procrastinating for three years," "negligence," and "lack of leadership," with no mention of Wang Jin-pyng's LY delegation in June 2004. Ma promised to focus his attention on the issue and to "work closely with the KMT caucus" in the LY after taking over the KMT chairmanship. He also declined to visit in September, writing that the LY will "address tough bills like the arms procurement bill."<sup>147</sup> However, after PFP Chairman James Soong met with Ma on September 7, he announced that the KMT and PFP party caucuses will continue to "consult each other" on whether to advance the Special Budget for consideration in the LY.<sup>148</sup> Meanwhile, Ma set up a KMT task force to study the arms issue, and there have been questions about

<sup>143</sup> Rep. Rob Simmons, et al., letter to Chairman Lien Chan, Kuomintang, May 27, 2005.

<sup>144</sup> Lien Chan, Chairman of the KMT, letter to Rep. Simmons, et al, June 8, 2005.

<sup>145</sup> *Taipei Times*, June 10, 2005.

<sup>146</sup> Letter from Representatives Robert Wexler, Steve Chabot, and Sherrod Brown (without Dana Rohrabacher) to Ma Ying-jeou, KMT Chairman, August 1, 2005.

<sup>147</sup> Letter to the Taiwan Caucus from Ma Ying-jeou, Mayor of Taipei, August 18, 2005.

<sup>148</sup> *Chung-kuo Shih-pao [China times]*, Taipei, September 7, 2005.

whether the KMT would support certain arms purchases and incur rising differences with its weakening coalition partner, the PFP, after the December 2005 elections.

Before the LY's session began on September 13, 2005, the Defense Ministry submitted a new Special Budget to cover submarines and P-3C aircraft, moving the request for PAC-3 missile defense to the regular budget (so that the Special Budget was about half of the original amount). LY President Wang Jin-pyng of the KMT acknowledged the reduction as a goodwill gesture and said that "it is time to address the issue."<sup>149</sup> On August 31, 2005, the Executive Yuan approved a Special Budget of NT\$340 billion (US\$10.3 billion), after removing NT\$140 billion (US\$4.2 billion) for PAC-3s. On September 28, 2005, the Defense Ministry issued details on its latest funding request for 8 submarines: about NT\$288 billion in the Special Budget and NT\$10.1 billion in the regular budget for a total of about US\$9 billion.<sup>150</sup>

**Defense Department Warns of Limits to U.S. Help.** When asked about the LY's delay in deciding to purchase U.S. weapons, Secretary of Defense Donald Rumsfeld said in August 2005 that under the TRA, the U.S. obligation is "to work with Taiwan" on security assistance, but it is up to Taiwan make its own decisions.<sup>151</sup> On September 19, 2005, Deputy Under Secretary of Defense Richard Lawless issued another strong speech, this time directed at Taiwan's people and saying that he was not urging the passage of the Special Budget because it has become a political "distraction." Lawless applauded the goal of increasing the defense budget to 3% of GDP. He warned of the danger that "Taiwan's steadily declining defense budgets, and the resulting erosion in its own defense capabilities, also adversely affect the status quo," in addition to the PLA build-up. He expressed the U.S. expectation that Taiwan has the "collective will to invest in a viable defense to address a growing threat and be in a position to negotiate the future of cross-strait relations from a position of strength." He criticized the military for "short-changing itself on reserves of critical munitions" and inadequate "hardening" for defense. Lawless stressed that, under the TRA, Taiwan also has an obligation for its self-defense. He warned that

the time of reckoning is upon us.... The U.S. ability to contribute to Taiwan's defense in a crisis is going to be measured against Taiwan's ability to resist, defend, and survive based on its own capabilities.... As the lone superpower, our interests are plentiful and our attention short. We cannot help defend you, if you cannot defend yourself."<sup>152</sup>

Separately, the Commander of the Pacific Command (PACOM), Admiral William Fallon raised questions in press articles and interviews about his assessment of whether Taiwan should prioritize its limited defense resources on "defensive" weapons rather than submarines, given Taiwan's urgent need to effectively upgrade

<sup>149</sup> *Central News Agency*, Taipei, August 24, 2005; *Taipei Times*, August 25, 2005.

<sup>150</sup> *Tung-sen Hsin-wen Pao*, Taipei, September 28, 2005.

<sup>151</sup> Secretary of Defense Donald Rumsfeld, news briefing, August 23, 2005.

<sup>152</sup> Speech issued on September 19, 2005, in San Diego, CA, at the Defense Industry Conference of the U.S.-Taiwan Business Council, while Richard Lawless was delayed in Beijing at the Six-Party Talks on North Korea's nuclear weapons. Edward Ross, a DSCA official, delivered the speech for Richard Lawless.

its self-defense. Admiral Fallon reportedly raised this question with Taiwan's Chief of General Staff, General Lee Tien-yu, who recently had visited Hawaii. Admiral Fallon also told the *United Daily News* his concern that if he is to be able to maintain the U.S. commitment to assist Taiwan's defense, then Taiwan should have a strong self-defense capability.<sup>153</sup> On October 26, 2005, eight Members, led by Representative Simmons, asked Admiral Fallon to explain his discussions with Taiwan on submarines. Admiral Fallon responded that he has not tried to discourage this purchase. He added, however, that PACOM has "strongly and consistently encouraged [Taiwan] to acquire capabilities that would have an immediate impact on [its] defense," and "while submarines would provide Taiwan with significant capabilities, a lengthy period of time would be needed to fulfill this long-term acquisition program."<sup>154</sup>

On October 29, 2005, at the transfer ceremony for the first two Kidd-class destroyers, Marine Brigadier General John Allen, Principal Director for Asian and Pacific Affairs in the Office of the Secretary of Defense, gave a speech, saying that "it is imperative that the people of Taiwan hold their leaders of all political parties accountable for reaching a consensus to increase defense spending," while it is not appropriate for the United States to tell Taiwan what "budgeting mechanism" to use. The U.S. role, he said, is to provide the "assistance necessary" to help Taiwan's strategy for stability, "but at the end of the day, it is Taiwan that must decide its fate."

In the first notification to Congress on arms sales to Taiwan since March 2004, the Defense Department in October 2005 put a new stress on the TRA's objective, which is to assist Taiwan to provide for its "own self-defense."

Like Lawless, the Director of DSCA, Air Force Lt. Gen. Jeffrey Kohler, also highlighted Taiwan's inadequate attention to its stocks of air-defense missiles and other munitions as well as pending decisions on defense spending, in an interview in December 2005.<sup>155</sup>

At a hearing of the House Armed Services Committee on March 9, 2006, in response to Representative Rob Simmons' question about the submarine sale to Taiwan, Admiral William Fallon expressed the dilemma for PACOM regarding Taiwan. Fallon said that he is

in bit of a box here, because I'm committed to defend this country in the event of any military aggression should that occur from the PRC, and yet the history is that they have not been forthcoming in investing in their own defense. ... What I'd like to see is some steps being made, some investment by Taiwan to actually acquire some of these capabilities and to boost their own readiness and ability to provide for their own defense.

<sup>153</sup> *Japan Times*, September 26, 2005 [reprinted in *Washington Times*, October 8, 2005]; *Liberty Times* [Chinese-language newspaper in Taipei], October 12, 2005, which named General Lee Tien-yu; *Associated Press*, October 14, 2005 [reprinted in *Taipei Times*, October 16, 2005]; and *Lien-Ho Pao* [*United Daily News* in Taipei], October 18, 2005.

<sup>154</sup> Letter to Representative Simmons from Admiral William Fallon, November 8, 2005.

<sup>155</sup> Jim Wolf, "Pentagon Official Says Taiwan Short on Weapons," *Reuters*, Dec. 7, 2005.

**Special Budget Blocked in Legislature.** On December 13, 2005, opposition lawmakers in the Procedures Committee voted for the 41<sup>st</sup> time to block the statute governing the Special Budget, keeping it from the LY's agenda since it was first introduced in 2004. However, at the Procedures Committee meeting on December 20, the DPP and its allied lawmakers called a vote at a moment when they had a majority, and the committee voted 12-5 to report the statute to the LY. On the eve of full LY consideration, the KMT and PFP chairmen, Ma Ying-jeou and James Soong, met and announced their joint opposition to a "wealthy fool's arms deal." The Ministry of Defense announced it will move the request for P-3s and reduce the Special Budget to one request of NT\$299 billion (US\$9 billion), about half of the original Special Budget, for submarines. Meanwhile, Representatives Rob Simmons and Tom Tancredo issued statements, saying the Special Budget was "critical for the defense of Taiwan" and applauded its passage out of the Procedures Committee. Representative Simmons also said that "blocking this arms package tells the United States — correctly or not — that Taiwan's leadership is not serious about the security of its people or its freedom. The American People have come to the aid of foreign countries in the name of freedom many times in our history; but Americans will not in good conscience support countries that are unwilling to defend themselves."<sup>156</sup>

When the LY convened on December 23, 2005, to consider the Special Budget, KMT and PFP lawmakers proposed to end the meeting before debating the bill. Taiwan's lawmakers voted 113-100 to end the meeting 20 minutes after it began. This move effectively sent the bill on the Special Budget back to the Procedures Committee, which then voted as before to block its progress on December 27, 2005, January 3, and January 10, 2006, the 45<sup>th</sup> time that opposition lawmakers in the LY blocked the statute on the Special Defense Budget after its introduction in 2004.

**Waiting for Ma Ying-jeou's KMT Defense Policy.** LY president Wang Jin-pyng (KMT) visited Washington on January 24-25, 2006, and promised a KMT policy on defense from Ma Ying-jeou, including on arms sales, in February or March. Unlike his visit in 2004, Wang's highest-level interlocutors in the Pentagon were Deputy Assistant Secretary of Defense Mary Beth Long and the Principal Director for Asian and Pacific Affairs, Brigadier General John Allen. There were no results from this visit.

In February 2006, Representative Rob Simmons visited Taipei and suggested a lower cost for the submarine sale (perhaps \$8 billion) and an interim step for Taiwan to procure a sub design (perhaps \$225 million). Also in February, Representative Henry Hyde, Chairman of the House International Relations Committee sent a letter to Ma, citing "deep concern" in Congress about the LY's failure in the past two years to pass the Special Budget and about significant cuts in other defense spending that would improve readiness. Hyde also wrote that Americans are left wondering whether Taiwan's legislators have the resolve to meet the challenges in providing for Taiwan's own defense.<sup>157</sup> In a March 7 letter, Ma

<sup>156</sup> Rep. Rob Simmons, "U.S. Congressman Congratulates Taiwan on Defense Spending Bill Progress," news release, December 21, 2005.

<sup>157</sup> Letter from Henry Hyde to Ma Ying-jeou, Chairman of the KMT, February 15, 2006.

responded to Representative Hyde by blaming the DPP administration and promising his own policy in the near future.

While the House Taiwan Caucus, in August 2005, had invited KMT chairman Ma Ying-jeou to visit, he scheduled a trip to Washington for March 22-23, 2006, while Congress was in recess. Ma failed on March 14 to gain his party's approval to issue a long-awaited policy on defense and arms procurement, despite his upcoming visit to Washington. Ma had no details on his defense priorities in meetings during his visit (with the private sector and the Bush Administration).

***Supplemental Budget Instead of Special Budget.*** When the LY reconvened on February 21, 2006, the Procedures Committee blocked the statute on the Special Budget for the 46<sup>th</sup> time. Thus, in a March 20 special report to the LY, Defense Minister Lee Jye decided to request procurement of subs and P-3s through supplemental funds in the regular 2006 defense budget (instead of the Special Budget): NT\$200 million (about US\$6 million) as working fees to study a sub procurement program and NT\$1.7 billion (about US\$52 million) for P-3C aircraft. The Defense Ministry then decided also to request supplemental funds of NT\$3.7 billion (about US\$113 million) for PAC-2 upgrades (not PAC-3 missiles), as urged by LY President Wang. The supplemental request for the 2006 budget for these three weapon systems totaled NT\$5.6 billion (about US\$172 million). This amount for the three proposed programs was included in the minister's broader Supplemental Budget request of NT\$13.7 billion (about US\$420 million) for 74 programs.<sup>158</sup>

In March 2006, the Defense Ministry submitted its request to the Executive Yuan (EY), or Cabinet, which then approved on May 24 a Supplemental Budget for the 2006 defense budget of NT\$6.3 billion (about US\$194 million) with the three weapons requests plus NT\$700 million for construction of an airstrip on Taiwan-controlled Taiping island (in the Spratly Islands in the South China Sea). The Supplemental Budget also needed to be approved by the Legislative Yuan (LY), but the LY's session ended on May 30 and KMT legislators, including Lin Yu-Fang, raised concerns, particularly about the supplemental budget's legal basis.<sup>159</sup> The LY decided on June 12 to hold a special session on June 13-30, but consideration of the Supplemental Budget for defense was not on the agenda that focused on trying to recall President Chen from office. On June 14, the EY approved a draft bill to govern the Supplemental Budget. Since September 2006, the opposition-controlled Procedures Committee repeatedly has voted to block the Supplemental Budget. The KMT demanded in mid-October 2006 that the ruling DPP Administration withdraw the original Special Budget if the Supplemental Budget is to be considered. While the DPP agreed to this compromise, it fell apart when the KMT and PFP still voted on October 24 to oppose placing the supplemental request on the LY's agenda.

<sup>158</sup> CNA, March 20 and April 4, 2006; Special Report of the Ministry of Defense, March 20, 2006; and author's interviews in Taipei in April 2006.

<sup>159</sup> During consultations in Taipei in April 2006, Lin Yu-fang said that a Supplemental Budget request would be illegal, that the issue is not the budgeting mechanism but whether the three weapon systems should be procured, and that such requests could "crowd out" other funding needs of the army and air force or other ministries.

This outcome prompted the U.S. Representative in Taipei, Stephen Young, to call a press conference two days later, at which he strongly urged the LY to “pass a robust defense budget in this fall’s legislative session.” He pressed the legislators to “permit the supplemental budget to pass through the procedural committee and be taken to the floor of the legislature so that an open debate can begin.”<sup>160</sup> However, his remarks stirred considerable controversy in a charged domestic political context. In defiance of this latest U.S. message, the opposition KMT and PFP legislators voted in the Procedures Committee on October 31 to block the Supplemental Budget.

**2007 Defense Budget.** In any case, the Bush Administration, U.S. industry, and Congress also are focusing on whether the LY will approve the 2007 defense budget with a spending increase during what is considered its critical September-December 2006 session. At the U.S.-Taiwan defense industry conference on September 10-12, 2006, the Defense Department declined to even issue a policy address to Taiwan, after making the effort in 2004 and 2005. The State Department’s Director of the Taiwan office, Clifford Hart, warned Taiwan’s political figures from opposition and ruling parties that “leaders who aspire to represent the Taiwan people” to the United States should recognize that their decisions “right now on core national security issues” will have an impact on the future bilateral relationship. He also focused attention on how the LY will pass the 2007 defense budget “this fall.”<sup>161</sup>

On November 6, 2006, the LY’s defense and budget committees jointly passed an amended 2007 defense budget. They approved about US\$185 million for P-3 planes; cut the request for the sub program from about US\$138 million to US\$6 million (for a so-called “feasibility study” for subs); and US\$106 million for PAC-2 upgrades (while deleting a request for PAC-3s), for a total of US\$297 million for these three programs. They also froze about US\$485 million for F-16C/D fighters for five months, pending U.S. approval and provision of price and availability data.

**Policy Reviews and U.S. Objectives.** With Taiwan’s politically-motivated impasse over funding for self-defense, a former Pentagon official warned that if Taiwan does not pass the Special Budget and there are not expected improvements in self-defense, the United States would be more hesitant to approve future requests for weapons systems and possibly conduct a review of policy toward Taiwan.<sup>162</sup>

Congress has a role in oversight of any reviews of policy toward Taiwan. In September 1994, the Clinton Administration explicitly and publicly testified to Congress about a major Taiwan Policy Review.<sup>163</sup> Defense ties would likely be

<sup>160</sup> AIT Director Stephen Young, press conference, Taipei, October 26, 2006.

<sup>161</sup> Clifford Hart, speech to the U.S.-Taiwan Defense Industry Conference, September 12, 2006, Denver, CO.

<sup>162</sup> Interview with Mark Stokes, retired Air Force Lieutenant Colonel and Country Director in the Office of the Secretary of Defense, in *Taipei Times*, April 24, 2005.

<sup>163</sup> Testimony of Assistant Secretary of State for East Asian and Pacific Affairs Winston Lord, “Taiwan Policy Review,” before the Senate Foreign Relations Committee on September 27, 1994. See CRS Report RL30341, *China/Taiwan: Evolution of the “One (continued...)*

included in any policy reviews of how to enhance leverage over Taiwan and affect the cross-strait situation, including whether to limit defense ties, apply conditions, or strengthen ties. Policy promotes the U.S. objectives of assisting Taiwan's self-defense capability, preventing conflict, minimizing the chance of U.S. intervention, dispelling dangerous misperceptions, and promoting cross-strait dialogue. While U.S. objectives have been consistent, developments in China and Taiwan since the 1970s have required U.S. re-assessments and responses.

In late 2002, the Pentagon reportedly conducted a policy review of cooperation with Taiwan that examined whether its leaders have taken defense seriously, whether defense cooperation with Taiwan has been effective, and whether U.S. policy should change.<sup>164</sup> (The NSC, State Department, and AIT would have input into any review by the Administration of policy toward Taiwan.<sup>165</sup>) At the U.S.-Taiwan Business Council's conference on Taiwan's defense in February 2003, in San Antonio, TX, Deputy Assistant Secretary of Defense Richard Lawless told Taiwan's Vice Defense Minister Chen Chao-min and others that, while the President said that we will do whatever it takes to help Taiwan defend itself, Taiwan "should not view America's resolute commitment to peace and stability in the Taiwan Strait as a substitute for investing the necessary resources in its own defense." At the same occasion, Deputy Assistant Secretary of State Randall Schriver indicated a new proactive U.S. approach to Taiwan's defense modernization, pointing Taiwan to three priorities: missile defense, C4ISR, and ASW.

Taiwan's election in March 2004 brought the re-election of President Chen Shui-bian and his advocacy of a new constitution for Taiwan by 2008. In April 2004, the Defense and State Departments testified to the House International Relations Committee, expressing a readjustment in the Bush Administration's policy toward Taiwan.<sup>166</sup> Assistant Secretary of State James Kelly clarified U.S. policy by stating:

- The United States "does not support" independence for Taiwan or unilateral moves that would change the status quo "as we define it" and opposes statements or actions from either side that would unilaterally alter Taiwan's "status."
- U.S. efforts at deterring PRC coercion "might fail" if Beijing ever becomes convinced Taiwan is embarked upon a course toward independence and permanent separation from China, and concludes that Taiwan must be stopped.

<sup>163</sup> (...continued)

*China" Policy — Key Statements from Washington, Beijing, and Taipei*, by Shirley Kan.

<sup>164</sup> *Taiwan Defense Review*, January 18, 2003.

<sup>165</sup> *The Nelson Report* (January 31, 2003) reported there was an interagency East Asia Policy Review.

<sup>166</sup> House International Relations Committee, hearing on "The Taiwan Relations Act: The Next 25 Years," April 21, 2004.

- It would be “irresponsible” of us or of Taiwan’s leaders to treat the PRC’s statements as “empty threats.”
- The United States looks to President Chen to exercise the kind of responsible, democratic, and restrained leadership that will be necessary to ensure a peaceful and prosperous future for Taiwan.
- There are “limitations” with respect to what the United States will support as Taiwan considers possible changes to its constitution.
- We urge Beijing and Taipei to pursue dialogue “as soon as possible” through any available channels “without preconditions.”

At that same hearing, Assistant Secretary of Defense Peter Rodman also warned PRC leaders that any attempt by China to use force against Taiwan would “inevitably” involve the United States.

Moreover, Assistant Secretary of State Kelly argued that a premise of arms sales to Taiwan has been that “a secure and self-confident Taiwan is a Taiwan that is more capable of engaging in political interaction and dialogue with the PRC, and we expect Taiwan will not interpret our support as a blank check to resist such dialogue.” However, some observers have begun to question the continued validity of this premise. James Lilley, former ambassador in Beijing and representative in Taipei, warned in April 2004 that:

The implicit American premise was that a secure and stable Taiwan would be a more willing and successful partner in dealing with China. Judicious arms sales to Taiwan were part of this formula and in the past it has worked. ... If elements of this broader formula are disregarded by the current Taiwan authorities, however, then the successful historic pattern has been broken. U.S. military support and arms sales cannot be used by Taiwan to move away from China — they were meant to make Taiwan feel secure enough to move toward accommodation with China. Our support should be conditional on upholding our successful pattern.<sup>167</sup>

On February 19, 2005, Secretary of Defense Donald Rumsfeld and Secretary of State Condoleezza Rice along with Japan’s Ministers for Defense and Foreign Affairs issued a Joint Statement of the U.S.-Japan Security Consultative Committee (“2+2 statement”). They declared that a common strategic objective is to “encourage the peaceful resolution of issues concerning the Taiwan Strait through dialogue.” China strongly objected to the alliance’s mere mention of Taiwan. Nonetheless, U.S. policy could place a greater stress on cross-strait dialogue over deterrence.

Greater cross-strait integration has raised concerns about the leakage of military technology and secrets from Taiwan to mainland China. As supporters of Taiwan wrote in October 2006, “there is little sense in America’s continued support of Taiwan’s defenses if Taiwan has no intention of using them to deter attack by the Chinese. Washington is increasingly alarmed that Taiwan’s politicians — wittingly

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<sup>167</sup> James Lilley, “Strait Talk,” *Wall Street Journal*, April 19, 2004.

or unwittingly — are shifting responsibility for their island's defense from Taipei to Beijing, thus jeopardizing the integrity of U.S. defense technology that has already been transferred to Taiwan.”<sup>168</sup>

**Visits by Generals to Taiwan.** As for senior-level contacts, the United States and Taiwan have held high-level defense-related meetings in the United States, as discussed above. U.S. policy previously restricted high-level military contacts but changed to welcome Taiwan’s senior military officers and defense officials to visit the United States, shifting the question to their willingness to make the visits. At the same time, the State Department’s policy has avoided sending to Taiwan U.S. flag and general officers or officials at or above the level of Deputy Assistant Secretary of Defense or State. For a hearing in 1999, Assistant Secretary of State Stanley Roth responded to a submitted question on this issue by writing that “following the 1994 policy review, the Administration authorized travel by high-level officials, including cabinet officers, from economic and technical agencies. However, restrictions remained at the same level for visitors from military or national security agencies at or above the position of Deputy Assistant Secretary and at the rank of one-star flag officer or above. This policy is based on the determination that visits of such officials would be inconsistent with maintaining an unofficial relationship.”<sup>169</sup>

Under the Bush Administration, the State Department has issued guidelines to continue the policy to ban official travel to Taiwan for State or Defense Department officials above the level of office director or for uniformed military personnel above the rank of O-6 (colonel, navy captain).<sup>170</sup> The Pentagon and some in Congress have sought to lift this restriction in order to advance U.S. interests in boosting Taiwan’s deterrence capability and U.S. leverage in Taiwan. Senior-level exchanges could help to understand Taiwan’s crisis-management and self-defense capabilities and limitations.<sup>171</sup> The TRA does not specify unofficial or official relations with Taiwan. Some have cited the NSC’s record of sending senior officials to Taipei for clear and direct talks.<sup>172</sup> The NSC, State Department, and some in Congress have opposed sending senior military officers and defense officials to Taiwan as an unnecessary, ineffective change to a sensitive situation. (See 108<sup>th</sup> Congress and 109<sup>th</sup> Congress.)

## Major Congressional Action

**105<sup>th</sup> Congress.** In the 105<sup>th</sup> Congress, the FY1999 National Defense Authorization Act (P.L. 105-261) required the Secretary of Defense to study the U.S. missile defense systems that could protect and could be transferred to “key regional

<sup>168</sup> Michael Needham and John Tkacik, “Grim Future for Taiwan’s Defenses,” Heritage Foundation Web Memo, October 31, 2006.

<sup>169</sup> Senate Foreign Relations Committee, hearing on “United States-Taiwan Relations: the 20<sup>th</sup> Anniversary of the Taiwan Relations Act,” March 25, 1999.

<sup>170</sup> Department of State, “Guidelines on Relations with Taiwan,” February 2, 2001.

<sup>171</sup> For supportive commentary, see Dan Blumenthal and Gary Schmitt, “A Strange Calculus,” *Wall Street Journal*, August 21, 2006.

<sup>172</sup> The NSC has sent the Senior Director for Asian Affairs, including James Moriarty and Michael Green, to Taiwan. For example: *Far Eastern Economic Review*, May 20, 2004.

allies,” defined as Japan, South Korea, and Taiwan.<sup>173</sup> In addition, the conference report (H.Rept. 105-746 of the FY1999 Defense Appropriations Act, P.L. 105-262) required a report from the Pentagon on the security situation in the Taiwan Strait, in both classified and unclassified forms.<sup>174</sup>

**106<sup>th</sup> Congress.** In the 106<sup>th</sup> Congress, Representative Gilman, Chairman of the House International Relations Committee, wrote President Clinton on April 19, 1999, urging approval for the sale of long-range early warning radars to Taiwan. He also wrote Secretary of State Madeleine Albright on April 22, 1999, saying that if the Administration did not approve the sale, he would introduce legislation to do so. In the end, the Clinton Administration decided in principle to sell early warning radars to Taiwan. The State Department spokesperson confirmed that the United States agreed on the request in principle and acknowledged that under the TRA, “the President and Congress determined which defense articles and services Taiwan needs.”<sup>175</sup> The Pentagon spokesperson also confirmed that the United States “agreed to work with the Taiwanese to evaluate their early warning radar needs, and that will take place over the next year or so, but there is no specific agreement on a specific type of radar, specific sale, or specific terms of sale at this time.”<sup>176</sup>

Also, Members debated whether the “Taiwan Security Enhancement Act (TSEA)” (S. 693, Helms; H.R. 1838, DeLay) was needed to better assist Taiwan or was unnecessary and counterproductive in a delicate situation, as the Clinton Administration maintained. The TSEA also increased attention to U.S.-Taiwan military exchanges, including that on communication and training. The Pentagon was said to have supported the spirit of the bill, although not its passage.<sup>177</sup> The TSEA was not enacted, although the House passed H.R. 1838 on February 1, 2000, by 341-70.

Seeking more information from the Pentagon on which to base its considerations, Congress passed the FY2000 National Defense Authorization Act (P.L. 106-65), requiring annual reports on PRC military power and the security

<sup>173</sup> Department of Defense, “Report to Congress on Theater Missile Defense Architecture Options for the Asia-Pacific Region,” unclassified version, May 1999; CRS Report RL30379, *Missile Defense Options for Japan, South Korea, and Taiwan: A Review of the Defense Department Report to Congress*, by Robert D. Shuey and Shirley A. Kan. November 30, 1999.

<sup>174</sup> Department of Defense, “Report to Congress Pursuant to the FY99 Appropriations Bill, The Security Situation in the Taiwan Strait,” unclassified version, February 1, 1999; CRS Report RS20187, *Taiwan’s Defense: Assessing the U.S. Department of Defense Report, “The Security Situation in the Taiwan Strait”*, by Robert Sutter.

<sup>175</sup> Shenon, Philip, “U.S. Plans to Sell Radar to Taiwan to Monitor China,” *New York Times*, April 30, 1999; Department of State, Daily Press Briefing, April 29, 1999.

<sup>176</sup> Defense Department News Briefing, April 30, 1999.

<sup>177</sup> Steven M. Goldstein and Randall Schriver (former official in the Office of the Assistant Secretary of Defense for International Security Affairs), “An Uncertain Relationship: The United States, Taiwan, and the Taiwan Relations Act,” *China Quarterly*, March 2001.

situation in the Taiwan Strait.<sup>178</sup> Also, in consolidated appropriations legislation for FY2000 (P.L. 106-113), Congress required a report on the operational planning of the Department of Defense to implement the TRA and any gaps in knowledge about PRC capabilities and intentions affecting the military balance in the Taiwan Strait.<sup>179</sup>

Concerning Congress' role *before* the Administration's decisions on arms sales and formal notifications, the 106<sup>th</sup> Congress passed language, introduced by Senator Lott, in the FY2000 Foreign Operations Appropriations Act (in Div. B of P.L. 106-113), requiring the Secretary of State to consult with Congress to devise a mechanism for congressional input in determining arms sales to Taiwan. Again, in the FY2001 Foreign Operations Appropriations Act (P.L. 106-429), Congress passed the Taiwan Reporting Requirement, requiring the President to consult on a classified basis with Congress 30 days prior to the next round of arms sales talks. (Those required consultations took place on March 16, 2001.)

**107<sup>th</sup> Congress.** In the 107<sup>th</sup> Congress, some Members opposed the sale of Aegis-equipped destroyers, because they could be interpreted as offensive rather than defensive sales and could involve significant interaction with the U.S. military, as Senators Feinstein and Thomas (chairman of the Foreign Relations Subcommittee on East Asian and Pacific Affairs) wrote in the *Washington Times* on March 28, 2001. Other Members — 83 in the House (led by Representatives Cox and Wu) and 20 in the Senate (led by Senators Helms and Torricelli) — wrote letters to President Bush on April 3, 2001, urging approval of the sale of those destroyers. A March 2001 staff report to Senator Helms of the Foreign Relations Committee called for meeting Taiwan's defense needs, particularly for submarines and destroyers.<sup>180</sup>

In addition, some in Congress urged the Administration to deliver AMRAAMs to Taiwan after the *Washington Times* on July 1, 2002, reported that, in June, two SU-30 fighters of the PLA Air Force test-fired AA-12 medium-range air-to-air missiles acquired from Russia. The report raised questions as to whether the PLA already deployed the missiles, meeting one of the conditions by which the United States would deliver the AMRAAMs to Taiwan — rather than keep them in storage — as approved for sale by the Clinton Administration in 2000. On July 16, 2002, Senators Kyl, Helms, Bob Smith, and Torricelli wrote Secretary of State Colin Powell, urging the Bush Administration to allow the transfer of AMRAAMS to Taiwan “as soon as they are produced” rather than “quibble over whether the AA-12 tests mean that China has an ‘operational’ capability.”

The National Defense Authorization Act for FY2002 (P.L. 107-107), enacted on December 28, 2001, authorized the President to transfer (by sale) the four Kidd-class destroyers to Taiwan (Section 1011), under Section 21 of the AECA. Also,

<sup>178</sup> Department of Defense, “Annual Report on the Military Power of the People’s Republic of China,” unclassified version, June 2000 and July 2002.

<sup>179</sup> Department of Defense, “Report to Congress on Implementation of the Taiwan Relations Act,” unclassified version, December 2000.

<sup>180</sup> Senate Foreign Relations Committee, “U.S. Defense Policy Toward Taiwan: In Need of an Overhaul,” a Staff Trip Report to the Committee on Foreign Relations, S. Prt. 107-26, by James Doran, printed April 2001.

Section 1221 of the act required a new section in the annual report on PRC military power (as required by P.L. 106-65) to assess the PLA's military acquisitions and any implications for the security of the United States and its friends and allies. The scope of arms transfers to be covered was not limited to those from Russia and other former Soviet states, as in the original House language (H.R. 2586).<sup>181</sup>

The Foreign Operations Appropriations Act for FY2002 (P.L. 107-115), enacted on January 10, 2002, brought unprecedented close coordination between the Executive and Legislative branches on arms sales to Taiwan. Section 573 required the Departments of State and Defense to provide detailed briefings (not specified as classified) to congressional committees (including those on appropriations) within 90 days of enactment and not later than every 120 days thereafter during FY2002. The briefings were required to report on U.S.-Taiwan discussions on potential sales of defense articles or services to Taiwan.

Some Members called for ensuring regular and high-level consultations with Taiwan and a role for Congress in determining arms sales to Taiwan, after President Bush announced on April 24, 2001 (the day of the last annual arms sales talks), that he would drop the annual arms talks process with Taiwan in favor of normal, routine considerations on an “as-needed” basis.<sup>182</sup> Due to the absence of diplomatic relations, successive administrations used a process in determining arms sales to Taiwan that was institutionalized in the early 1980s as annual rounds of talks with Taiwan defense authorities consisting of several phases leading up to final meetings usually in April.<sup>183</sup> In overseeing the new process, factors or implications to consider included the following:

- Congress’ role in decision-making and ability to exercise oversight
- role of arms sales talks in the broader long-range and joint defense strategy for Taiwan (vs. a narrower focus on specific requests)
- role of arms sales in U.S. diplomatic and defense policies (including various elements of the “one China” policy)
- U.S. objectives for the Taiwan military
- nature of the U.S.-Taiwan military relationship
- extent of high-level U.S.-Taiwan military exchanges
- effect of an annual high-profile controversy on U.S. interests
- usefulness to Congress and Taiwan of a deadline for decisions
- influence of various interest groups in a more defused process
- changes in high-level, intensive attention given by the White House and its coordination of the inter-agency debates
- changes in the Pentagon’s basis for recommendations
- Taiwan’s desire to receive similar treatment given to others
- consultations with allies, including Japan.

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<sup>181</sup> Still, the Pentagon’s report, issued on July 12, 2002, discussed China’s military acquisitions from states of the former Soviet Union, and not other countries (e.g., Israel).

<sup>182</sup> Milbank, Dana and Mike Allen, “Bush to Drop Annual Review of Weapons Sales to Taiwan,” *Washington Post*, April 25, 2001.

<sup>183</sup> See CRS Report RS20365, *Taiwan: Annual Arms Sales Process*, by Shirley Kan.

The Foreign Relations Authorization Act for FYs 2002 and 2003 (H.R. 1646), passed in the House on May 16, 2001, contained provisions on arms sales to Taiwan. First, H.R. 1646 included authority (in Section 851) for the President to sell the four Kidd-class destroyers to Taiwan. Second, as proposed by Representative Brad Sherman in the House International Relations Committee, Section 813 sought to require that Taiwan be treated as the “equivalent of a major non-NATO ally” for defense transfers under the AECA or the Foreign Assistance Act, while the language stopped short of designating Taiwan as a major non-NATO ally. According to the Member’s office, the provision would show tangible support for Taiwan’s defense, provide it with status similar to that given to Australia, New Zealand, and Argentina, offer it the “right of first refusal” for EDA, and treat it with enhanced status for anti-terrorism assistance, cooperative research and development projects in the defense area, and expedited review in satellite licensing. Third, Representative Gary Ackerman introduced Section 814 to require the President to consult annually with Congress and Taiwan about the availability of defense articles and services for Taiwan. The consultations with Taiwan would occur at a level not lower than that of the Vice Chief of General Staff and in Washington, DC — as has been the case.

Finally enacted as P.L. 107-228 on September 30, 2002, the Foreign Relations Authorization Act for FY2003 authorized — at the Bush Administration’s request — the Department of State and other departments or agencies (including the Department of Defense) to detail employees to AIT (Section 326); required that Taiwan be “treated as though it were designated a major non-NATO ally” (Section 1206); required consultations with Congress on U.S. security assistance to Taiwan every 180 days (Section 1263); and authorized the sale to Taiwan of the four Kidd-class destroyers (Section 1701).<sup>184</sup> Section 326, amending the Foreign Service Act of 1980, has significant implications for the assignment of government officials to AIT, including active-duty military personnel for the first time since 1979. (Employees have been separated from government service for a period of time in the name of “unofficial” relations, but personnel issues have affected AIT and its contractors. Defense Department personnel, including those supporting security assistance, have been civilian staff and retired or resigned military personnel.)

In signing the bill into law on September 30, 2002, President Bush issued a statement that included criticism of Section 1206 (“major non-NATO ally”). He said that “Section 1206 could be misconstrued to imply a change in the ‘one China’ policy of the United States when, in fact, that U.S. policy remains unchanged. To the extent that this section could be read to purport to change United States policy, it impermissibly interferes with the President’s constitutional authority to conduct the Nation’s foreign affairs.”

Nonetheless, the Acting Under Secretary of Defense for Acquisition, Technology, and Logistics, Michael Wynne, submitted a letter to Congress on August 29, 2003, that designated Taiwan as a “major non-NATO ally” under Section 1206. The are implications for defense industrial cooperation with Taiwan, under Section 65 of the Arms Export Control Act (P.L. 90-629).

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<sup>184</sup> For more details on proposed House and Senate language, see “Arms Sales to Taiwan,” in CRS Report RL31046, *Foreign Relations Authorization, FY2003: An Overview*, coordinated by Susan B. Epstein.

The FY2003 National Defense Authorization Act, passed in the House on May 10, 2002, contained Section 1202 seeking to require the Secretary of Defense to implement a comprehensive plan to conduct combined training and exchanges of senior officers with Taiwan's military and to "enhance interoperability" with Taiwan's military.<sup>185</sup> The language was similar to that of Section 5(b) in the "Taiwan Security Enhancement Act" proposed in the 106<sup>th</sup> Congress. The Senate's version, passed on June 27, 2002, did not have the language. The *Washington Times* reported on August 9, 2002, that the Department of State opposed the language as unnecessary (given U.S. support under the TRA).

As Members worked out differences in conference, Deputy Defense Secretary Paul Wolfowitz wrote in a letter to the House and Senate Armed Services Committees on September 27, 2002, that "while we welcome Congress' support for the U.S. commitments under the Taiwan Relations Act and for the President's commitment to the defense of Taiwan, we believe that the objectives of Section 1202 are best achieved by preserving the traditional statutory role of the Secretary to exercise authority, direction, and control over the Department of Defense to conduct such activities as are needed to support those commitments, including his authority to preserve the confidentiality of those activities." The Pentagon "strongly recommends that this provision be deleted, although we would not object to language that would call upon the Department to brief the Congress periodically on progress we are making to meet our commitments to Taiwan security," Wolfowitz wrote. As enacted on December 2, 2002, the FY2003 National Defense Authorization Act (P.L. 107-314) contained a revised section (1210), requiring a Presidential report 180 days after the act's enactment (due May 31, 2003) on the feasibility and advisability of conducting combined operational training and exchanges of senior officers with Taiwan's military. (U.S. policy has allowed Taiwan's senior military officers and defense officials to visit the United States, while not sending U.S. flag and general officers to Taiwan, or senior officials.)

**108<sup>th</sup> Congress.** On May 20, 2004, the House passed H.R. 4200 (FY2005 National Defense Authorization Act) with Section 1013 to authorize the sale to Taiwan of a dock landing ship (Anchorage) as an Excess Defense Article and Section 1215 to require the Defense Department to send general or flag officers and officials at or above the level of deputy assistant secretary of defense to Taiwan (as proposed by Representative Jim Ryun). After a floor debate about whether his amendment was necessary or dangerous, the House passed it by 290-132. Supporters cited the Defense Department's support for this policy change and challenges in Taiwan's military in integrating new acquisitions and prioritizing self-defense needs against the PLA. Opponents cited resistance by the NSC and State Department, the TRA as existing authority for security assistance, and the need for caution in a tense part of Asia. On May 19, 2004, Senator Sam Brownback submitted for the record a similar amendment intended to be proposed to the Senate's bill (S. 2400). However, on June 23, 2004, the Senate passed S. 2400 without considering or voting on such language. During conference, the House receded, and the conference report did not contain

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<sup>185</sup> For an argument for enhancing interoperability with Taiwan, see Justin Bernier (staffer for the House Armed Services Committee) and Stuart Gold, "China's Closing Window of Opportunity," *Naval War College Review*, summer 2003.

Section 1215 (H.Rept. 108-767, issued on October 8, 2004). President Bush signed H.R. 4200 into law (P.L. 108-375) on October 29, 2004.

**109<sup>th</sup> Congress.** In January 2005, eight Members led by Representative Rob Simmons wrote to Secretary of State Condoleezza Rice to express concerns that the Bush Administration has delayed notifications to Congress on the three major items until after LY decided on the Special Budget. The State Department responded that it supports the President's decision of April 2001 to make available to Taiwan P-3s, PAC-3s, and submarines, but that it does not believe "notification at this time will have any influence on the Taiwan Legislature's decision."<sup>186</sup> At issue are the Bush Administration's effectiveness in encouraging Taiwan to boost its self-defense, extent of U.S. leverage in Taiwan, and risks in relations with Beijing.

On May 20, 2005, the House Armed Services Committee reported its National Defense Authorization Act for FY2006 (H.R. 1815, H.Rept. 109-89), again proposing language to change U.S. policy to allow U.S. flag and general officers and senior officials at or above the level of deputy assistant secretary of defense to visit Taiwan (Section 1203). Such visits would reciprocate visits by senior military officers and officials from Taiwan that already take place in the United States. Also, Chairman Duncan Hunter's press release noted that the Defense Department exchanged with the PLA over 80 senior-level visits in the 1990s and about 14 in recent years.<sup>187</sup> The bill added new language that would ensure that Capstone classes at the National Defense University (for new general and flag officers) conduct trips to the PRC and Taiwan (Section 528). The House passed H.R. 1815 on May 25 without debate on the Taiwan-related language. The bill reported by the Senate Armed Services Committee on May 17, 2005 (S. 1042) did not contain similar sections. On December 18, 2005, the conference committee filed its report for H.R. 1815 (H.Rept. 109-360), after the House receded on the two Taiwan-related sections. The House passed the conference report on December 19, and the Senate agreed on December 21. The President signed it into law (P.L. 109-163) on January 6, 2006.

As mentioned above on the impasse over the Special Budget, on May 27, 2005, Representative Simmons and 32 other House Members wrote to KMT chairman Lien Chan, urging him to help expedite passage of the Special Budget in May. They warned that "failure to pass the special budget has raised concerns in the United States about Taiwan's ability to defend itself against potential aggression."<sup>188</sup> On August 1, 2005, three co-chairs of the House Taiwan Caucus wrote to Ma Ying-jeou as the new KMT chairman. They urged him to "lead efforts in Taipei to ensure that the Legislative Yuan quickly passes a special arms procurement package or increases its annual defense spending." They also invited Ma to visit Washington.<sup>189</sup>

<sup>186</sup> Letters between the State Department and Representatives Rob Simmons, Lane Evans, Roskoe Bartlett, Chris Smith, John Hostettler, Madeleine Bordallo, Trent Franks, and Jeb Bradley, January 31 and February 15, 2005.

<sup>187</sup> CRS Report RL32496, *U.S.-China Military Contacts: Issues for Congress*, by Shirley Kan.

<sup>188</sup> Rep. Simmons, et al., letter to Chairman Lien Chan, Kuomintang, May 27, 2005.

<sup>189</sup> Letter from Representatives Robert Wexler, Steve Chabot, and Sherrod Brown (without (continued...))

On July 27, 2005, Representative Robert Andrews introduced H.Con.Res. 219 to express the sense of Congress that the President should abolish restrictions on visits by senior U.S. military officials to Taiwan and should authorize the sale of the Aegis combat system to Taiwan (among other stipulations).

As mentioned above on Pacific Commander Admiral Fallon's questions about Taiwan buying submarines, eight Members of Congress led by Representative Rob Simmons wrote a letter in October 2005 to ask Admiral Fallon to explain his discussions with Taiwan on submarines.<sup>190</sup> Also discussed above, in February 2006, Representative Simmons visited Taiwan and suggested a lower cost for the subs and an interim design phase to break the impasse over whether to procure U.S. submarines, and House International Relations Committee Chairman Henry Hyde wrote a letter to KMT Chairman Ma about the defense issues.

On May 3, 2006, the House Armed Services Committee reported H.R. 5122, the National Defense Authorization Act for FY2007, after approving amendments with relevance for Taiwan and the PRC that were introduced by Representative Simmons. The bill added new language that would make it U.S. policy to make available to Taiwan plans and options for design work and construction on future diesel electric submarines and would require the Navy to report to Congress on its dealings with Taiwan on the submarine sale (Section 1221). Other provisions would again seek to change policy to require at least one CAPSTONE visit to Taiwan every year (and one to the PRC) (Section 1205); to authorize general and flag officers to visit Taiwan (reciprocating Taiwan's senior-level visits to the United States and balancing exchanges with the PLA) (Section 1206); and to restrict procurement by the Defense Department from foreign firms that supply weapons to the PRC (Section 1211). On May 11, the House passed H.R. 5122 with these sections. On June 22, the Senate passed its version, S. 2766, without similar language, and incorporated it into H.R. 5122. Secretary of Defense Rumsfeld wrote a letter to Congress on July 24, 2006, to oppose a policy change to allow generals/admirals to visit Taiwan, in line with the views of the State Department and White House.<sup>191</sup> So, for the conference report dated September 29, the House receded, and Sections 1205, 1206, 1211, and 1221 were deleted. On October 17, 2006, President Bush signed the bill (P.L. 109-364).

On June 28, 2006, Representative Tom Tancredo introduced an amendment (Section 801) to H.R. 5672, the Science, State, Justice, Commerce Appropriations Act for FY2007, to ban funds from being used to enforce the State Department's guidelines restricting contact with Taiwan's officials. (As discussed above, the guidelines ban official travel by senior Defense officials and general or flag military officers to Taiwan.) The House agreed to the amendment by voice vote. On June 29,

<sup>189</sup> (...continued)

Dana Rohrabacher) to Ma Ying-jeou, KMT Chairman, August 1, 2005.

<sup>190</sup> Letter to Admiral William Fallon, Commander of the Pacific Command, from Representatives Rob Simmons, Dan Burton, Robert Andrews, Henry Brown, James Langevin, Phil Gingrey, Thomas Tancredo, and Patrick Kennedy, October 26, 2005.

<sup>191</sup> Dan Blumenthal and Gary Schmitt, "A Strange Calculus," *Wall Street Journal*, August 21, 2006; and author's consultations, September 2006.

the House passed H.R. 5672. The Senate Appropriations Committee (Senator Richard Shelby) reported H.R. 5672 on July 13 without that section.

On September 7, 2006, the Senate passed S. 3722 (Lugar), the Naval Vessels Transfer Act of 2006, that included authority for the President to sell to Taiwan two Osprey-class minehunter coastal ships.

## **Major U.S. Arms Sales as Notified to Congress**

The following table provides information on U.S. sales (not deliveries) of major defense articles and services to Taiwan, as approved by the President, proposed in Letters of Offer and Acceptance, and formally notified to Congress since 1990. Based on unclassified notices and news reports, this list includes the date of notification, major item or service proposed for sale, and estimated value of the defense package. The list was compiled based on unclassified notifications to Congress or announcements by the Administration as well as press reports. These were primarily government-to-government FMS programs. Major FMS are notified to Congress as required by Section 36(b) of the Arms Export Control Act (AECA), P.L. 90-629.<sup>192</sup> Not all of these approved sales were necessarily purchased by Taiwan. There have been other transfers of U.S. defense articles and services not included in this list (that amounted to billions of dollars), including sales and technical assistance with smaller individual values not required to be notified to Congress, those with classified notifications, and other direct commercial sales licensed for export by the Department of State and notified to Congress under Section 36(c) of the AECA (but subject to the confidentiality requirements of Section 38(e)). There have also been leases of naval vessels and other equipment. Moreover, each year, hundreds of Taiwan's military personnel at different levels receive training and education at U.S. military colleges, academies, and other institutions or units.

Date of notification	Major item or service as proposed (usually part of a package)	Value of package (\$ million)
<b>1990</b>		
07/26	Cooperative Logistics Supply Support	\$108
09/06	(1) C-130H transport aircraft	\$45
<b>1991</b>		
01/07	(100) MK-46 torpedoes	\$28
07/24	(97) SM-1 Standard air defense missiles	\$55
09/13	(110) M60A3 tanks	\$119
11/18	Phase III PIP Mod Kits for HAWK air defense systems	\$170

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<sup>192</sup> As with all U.S. arms sales, months or years *after* the President's decisions on Taiwan's requests and Taiwan's subsequent decisions on which sales to pursue, the role of Congress includes informal and formal review of major proposed FMS deals notified to Congress (during which Congress may enact a joint resolution of disapproval) as stipulated under Section 36(b) of the AECA. See CRS Report RL31675, *Arms Sales: Congressional Review Process*, by Richard Grimmett.

Date of notification	Major item or service as proposed (usually part of a package)	Value of package (\$ million)
<b>1992</b>		
05/27	Weapons, ammunition, support for 3 leased ships	\$212
05/27	Supply support arrangement	\$107
08/04	(207) SM-1 Standard air defense missiles	\$126
09/14	(150) F-16A/B fighters	\$5,800
09/14	(3) Patriot-derived Modified Air Defense System (MADS) fire units <sup>193</sup>	\$1,300
09/18	(12) SH-2F LAMPS anti-submarine helicopters	\$161
<b>1993</b>		
06/17	(12) C-130H transport aircraft	\$620
06/25	Supply support arrangement	\$156
07/29	(38) Harpoon anti-ship missiles	\$68
07/30	Logistics support services for 40 leased T-38 trainers	\$70
08/	(4) E-2T Hawkeye airborne early warning aircraft <sup>194</sup>	\$700
09/08	Logistics support services for MADS	\$175
11/04	(150) MK-46 Mod 5 torpedoes	\$54
11/09	Weapons, ammunition, and support for 3 leased frigates	\$238
11/23	MK-41 Mod (short) Vertical Launch Systems for ship-based air defense missiles	\$103
<b>1994</b>		
08/01	(80) AN/ALQ-184 electronic counter measure (ECM) pods	\$150
09/12	MK-45 Mod 2 gun system	\$21
<b>1995</b>		
03/24	(6) MK-75 shipboard gun systems, (6) Phalanx Close-In Weapon Systems	\$75
06/07	Supply support arrangement	\$192
<b>1996</b>		
05/10	Improved Mobile Subscriber Equipment communications system	\$188
05/10	(30) TH-67 training helicopters, (30) sets of AN/AVS-6 night vision goggles	\$53
05/23	(465) Stinger missiles, (55) dual-mounted Stinger launcher systems	\$84
06/24	(300) M60A3TT tanks	\$223

<sup>193</sup> Commercial sale. Opall Barbara and David Silverberg, "Taiwanese May Soon Coproduce Patriot," *Defense News*, February 22-28, 1993; *Military Balance* 1999-2000.

<sup>194</sup> *Flight International*, September 1-7, 1993.

Date of notification	Major item or service as proposed (usually part of a package)	Value of package (\$ million)
08/23	(1,299) Stinger surface-to-air missiles, (74) Avenger vehicle mounted guided missile launchers, (96) HMMWVs (high-mobility multi-purpose wheeled vehicle)	\$420
09/05	(110) MK-46 MOD 5 anti-submarine torpedoes	\$66
<b>1997</b>		
02/14	(54) Harpoon anti-ship missiles	\$95
05/23	(1,786) TOW 2A anti-armor guided missiles, (114) TOW launchers, (100) HMMWVs	\$81
07/24	(21) AH-1W Super Cobra helicopters <sup>195</sup>	\$479
09/03	(13) OH-58D Kiowa Warrior Armed Scout helicopters	\$172
11/09	Pilot training and logistics support for F-16 fighters	\$280
11/09	Spare parts for various aircraft	\$140
<b>1998</b>		
01/28	(3) Knox-class frigates, <sup>196</sup> (1) MK 15 Phalanx Close-In Weapons System (CIWS)	\$300
06/01	(28) Pathfinder/Sharpshooter navigation and targeting pods for F-16 fighters <sup>197</sup>	\$160
08/27	(58) Harpoon anti-ship missiles	\$101
08/27	(61) Dual-mount Stinger surface-to-air missiles	\$180
08/27	(131) MK 46 Mod 5(A)S anti-submarine torpedoes	\$69
10/09	(9) CH-47SD Chinook helicopters	\$486
<b>1999</b>		
05/26	(240) AGM-114KS Hellfire II air-to-surface missiles	\$23
05/26	(5) AN/VRC-92E SINCGARS radio systems, (5) Intelligence Electronic Warfare systems, (5) HMMWVs	\$64
07/30	Spare parts for F-5E/F, C-130H, F-16A/B, and Indigenous Defense Fighter (IDF) aircraft	\$150
07/30	(2) E-2T Hawkeye 2000E airborne early warning aircraft <sup>198</sup>	\$400
<b>2000</b>		
03/02	Modernization of the TPS-43F air defense radar to TPS-75V configuration	\$96

<sup>195</sup> Taiwan reportedly ordered 63 AH-1W helicopters, 42 of which were delivered by early 2000, and Taiwan may order an additional 24 helicopters (*Defense News*, March 6, 2000).

<sup>196</sup> In 1992, the Bush Administration submitted legislation that Congress passed to lease three Knox-class frigates to Taiwan. Reports say that Taiwan leased a total of six (and subsequently bought them in 1999) and purchased two in 1998 (plus one for spares).

<sup>197</sup> The sale of the navigation/targeting pods excluded the laser designator feature, but the Pentagon notified Congress on May 16, 2000, that 20 sets would be upgraded to include the feature.

<sup>198</sup> Northrop Grumman delivered the first one on August 10, 2004, at St. Augustine, FL.

Date of notification	Major item or service as proposed (usually part of a package)	Value of package (\$ million)
03/02	(162) HAWK Intercept guided air defense missiles <sup>199</sup>	\$106
06/07	(39) Pathfinder/Sharpshooter navigation and targeting pods for F-16 fighters	\$234
06/07	(48) AN/ALQ-184 ECM pods for F-16s	\$122
09/28	(146) M109A5 howitzers, 152 SINCGARS radio systems	\$405
09/28	(200) AIM-120C Advanced Medium-Range Air-to-Air Missiles (AMRAAMs) for F-16 fighters	\$150
09/28	(71) RGM-84L Harpoon anti-ship missiles	\$240
09/28	Improved Mobile Subscriber Equipment (IMSE) communication system	\$513
<b>2001</b>		
07/18	(50) Joint Tactical Information Distribution Systems (JTIDS) terminals (a version of Link 16) for data links between aircraft, ships, and ground stations	\$725
09/05	(40) AGM-65G Maverick air-to-ground missiles for F-16s	\$18
10/26	(40) Javelin anti-tank missile systems	\$51
10/30	Logistical support for spare parts for F-5E/F, C-130H, F-16A/B, and IDF aircraft	\$288
<b>2002</b>		
06/04	(3) AN/MPN-14 air traffic control radars	\$108
09/04	(54) AAV7A1 assault amphibious vehicles	\$250
09/04	Maintenance of material and spare parts for aircraft, radar systems, AMRAAMS, and other systems	\$174
09/04	(182) AIM-9M-1/2 Sidewinder air-to-air missiles	\$36
09/04	(449) AGM-114M3 Hellfire II anti-armor missiles to equip AH-1W and OH-58D helicopters <sup>200</sup>	\$60
10/11	(290) TOW-2B anti-tank missiles	\$18
11/21	(4) Kidd-class destroyers	\$875
<b>2003</b>		
09/24	Multi-functional Information Distribution Systems (for Po Sheng C4ISR data link upgrades)	\$775
<b>2004</b>		
03/30	(2) Ultra High Frequency Long Range Early Warning Radars	\$1,776

<sup>199</sup> On June 23, 2000, the Pentagon notified Congress of a sale of 156 excess HAWK air defense missiles to Taiwan for about \$7 million.

<sup>200</sup> On January 4, 2005, Lockheed Martin announced a letter of agreement worth about \$50 million for more than 400 Hellfire missiles.

Date of notification	Major item or service as proposed (usually part of a package)	Value of package (\$ million)
<b>2005</b>		
10/25	(10) AIM-9M Sidewinder and (5) AIM-7M Sparrow air-to-air missiles; continuation of pilot training and logistics support for F-16 fighters at Luke AFB, AZ	\$280